Turning hidden treasures into solid growth

Kempen Capital Management NV

2019 ANNUAL REPORT

AMSTERDAM

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Report of the Management Board

Kempen Capital Management NV (KCM) is a full subsidiary of Van Lanschot Kempen Wealth Management NV, formerly known as Van Lanschot NV, (Van Lanschot), which is in turn a full subsidiary of Van Lanschot Kempen NV (also VLK). KCM is a specialist asset manager with a strong focus and a selective invesement strategy.

KCM's mission is to retain and accrue wealth on behalf of its clients. Clients can rely on KCM to be a long-term steward that takes into account their financial and social long-term goals and to operate with a strong focus and clear investment outlook. As part of this, KCM offers clients access to investments which normally have a high entry threshold and demand a high degree of expertise and infrastructure, while also adding value in the long term.

KCM focuses on managed portfolios in niche investment strategies, such as global and European equities (high dividend equity, small-caps, infrastructure, sustainable value creation), bonds (government bonds and credits), real estate equities and alternative investments (private markets, alternative credit) for institutional and private investors in the shape of mandates and investment funds. KCM also offers Client Solutions: total investment solutions for both private investors via Van Lanschot and institutional investors (directly). The individual client's objectives or commitments are leading here. In addition KCM offers Fiduciary Management, a comprehensive investment solution for institutional investors, such as pension funds and insurers but also associations, foundations and family offices. KCM offers a hands-on solution that relieves clients of day-to-day asset management activities, ensuring that clients are always in control. KCM seeks to be a world-class specialist asset manager and exceed its clients' expectations. It works to create long-term partnerships built on the key pillars of transparency and trust with its clients and service providers. KCM has offices in Amsterdam, London and Paris.

Results

In the reporting period from 1 January through 31 December 2019, we generated a profit of €16.3 million. Assets under management increased by 31.5% to €73.1 billion from €55.6 billion, the net outcome of deposits (+16.9%) and price effects (+14.6%). Assets under monitoring and guidance decreased to €3.1 billion from €3.4 billion, bringing the total invested capital for which KCM provides services to €76.2 billion from €58.9 billion. At the reporting date, KCM's cash position and solvency were as strong as ever, and nothing out of the ordinary occurred in our cash flows in the period.

Contribution to results

KCM's income derives from fees on assets under management, reflecting capital entrusted to KCM by investors coupled with the (absolute) performance of our investment products – a review of which follows here.

Macro-economic environment and the financial markets in 2019

The first few months of 2019 were dominated by a strong recovery in equity prices, following a sharp sell-off in the final quarter of 2018. One major reason for this recovery was a dramatic reversal by monetary policymakers at central banks, with the biggest change coming from the Fed, the US system of central banks. While the Fed had still been indicating in December 2018 that it wished to raise interest rates, it had already abandoned this intention by January 2019. Furthermore, it announced it would stop reducing its sizeable portfolio of government bonds sooner than planned. After the financial markets had already anticipated interest rate cuts, at the Fed's June policy meeting it turned out that nearly half the policymakers wanted to cut interest rates before the end of the year, the greater part of this group by as much as 50 basis points. The European Central Bank (ECB) kept interest rates unchanged, but ECB President Draghi did fuel speculation about a more flexible policy by clearly stating that the ECB was poised to cut rates further or resume its bond-buying programme. China introduced a range of measures that included lower reserve requirements for banks, giving them greater lending capacity, and lower VAT rates. The Fed's first interest rate cut came at the end of July 2019, with a second following in September. Also, in September 2019, the ECB cut its interest rates to -0.5% and announced a new quantitative easing programme.

The switch to more flexible monetary policies was made against the background of a global economic slowdown and low inflation. The weakness in the global economy was chiefly visible in industry output, the easing of trade activities and a lower volume of corporate investments. This was partly triggered by the trade war between the United States (US) and China, in which import tariffs were raised sharply. Manufacturers became steadily less optimistic over the course of 2019 and even pessimistic in a growing number of countries. Exports plummeted in a number of Asian countries, including China, South Korea and Taiwan. Orders for capital goods also came to a virtual standstill in the US and fell substantially in Germany. At the start of the year, this weakness was still being compensated for by tight job markets, positive consumer confidence and correspondingly higher consumer spending, but in the course of the year signs gradually emerged that the weakness in the global economy was also affecting consumers. Moreover, manufacturers in the service sector became less optimistic too, demonstrating that the political uncertainties surrounding the trade war between the US and China and the Brexit, as well as the impact of monetary tightening in 2017 and 2018, were being felt by all sections of the global economy. Yet there were signs of stabilisation in the final months of the year. The US and China were heading for a phase-one trade agreement and import tariffs were not raised further. In the United Kingdom (UK), the Conservative Party won a resounding election victory, reducing the risk of a hard Brexit. These developments also helped to reduce the risk of a global recession. The accommodating monetary policies and low interest rates prompted investors to pin their hopes on a rapid recovery in corporate earnings.

Despite the modest economic growth, 2019 was a fantastic year for investors. All the general asset classes posted positive returns. Low growth, flexible monetary policies and lower inflation forecasts pushed down capital market yields and led to positive returns for bond investors. Even at low and in some cases negative yields, government bonds still managed to earn positive returns. Japanese government bonds noted the lowest annual return at 1.7%. Negative yields in Germany and the Netherlands meant that a return of 4.4% on core Eurozone bonds was remarkable. This performance was earned in spite of the slightly higher yields towards the end of the year. The government bonds of all the Eurozone countries combined in fact generated a return of 6.8%. US government bonds did even better with a performance of 8.4%. The US also outperformed the Eurozone when it came to credits. US investment grade credits posted a plus of 14.5%, while the Eurozone noted 6.2%. The performance of high yield bonds from the US and Eurozone was 11.2% and 14.3% respectively. Incidentally, all these returns are in local currency. As the US dollar appreciated in value by over 2% across the year, the US returns are about 2% higher when converted into euros. Investors in credits profited from the lower government bond yields and from tighter spreads. Spreads on investment grade credits tightened by 59 basis points in Europe and 60 basis points in the US, while high yield credits saw spreads contract by 195 basis points in Europe and 190 basis points in the US.

Equity returns were simply spectacular. The global equity index noted a total return of no less than 30.0%. The US again headed the rankings (33.3%), followed by the Eurozone (26.0%), Japan (21.8%) and emerging markets (20.6%); please note that all returns given here are measured in euros. The strong result on equities was partly due to the sharp correction at the end of 2018. This led to January being the global index's best month. US equities reached a new all-time high at the end of April 2019, only to repeat this on a further 21 occasions. The positive equity returns were earned in spite of corporate earnings not rising or in fact often falling. It was therefore higher valuations that provided the gains. Equities profited from the dramatic switch towards more flexible monetary policy by central banks and later in the year from diminishing geopolitical tensions. Of course this does not mean that prices only moved upwards. In particular turbulence triggered by the trade war and the Brexit led to corrections in May 2019 and August 2019. Emerging markets succeeded in catching up marginally in December, when it became clear that the US and China were heading for a trade agreement and the Chinese economy started to stabilise.

Global real estate managed to keep pace with equities at a return of 25.3%. Returns on emerging market debt (12.2% for bonds listed in US dollars and 15.0% for bonds listed in local currency) were close to those earned on high yield credits. Commodities noted a relatively low return of 5.4%, causing gold's performance of 18.4% to stand out.

Commercial developments in niche strategies

2019 saw an increase of about €2.4 billion in niche strategies based on assets under management. Key contributors to this were the highly favourable markets and net inflows from (international) wholesale distributors using our strategies as building blocks for their clients.

We recorded attractive growth in assets under management across most strategies. Our Euro Credit strategies remained popular among European investors and grew by approximately €985 million. Our Global Small-cap Fund grew by approximately €470 million.

Our Global Impact Pool broke through the €100 million barrier, while our Kempen Private Markets Fund, launched in June 2018, attracted substantial capital to the tune of €113 million. Following its launch on 14 February 2019, the Kempen European Private Equity Fund had a very successful first year. In two rounds of fundraising, the fund reached its maximum capacity of €192.5 million. These asset classes contain a large amount of future potential and are a great fit with the DNA of active investors seeking alpha in illiquidity, income and ESG. By the end of the reporting period, our niche strategies totalled €16.8 billion in assets under management, an increase of about 16.9% relative to assets under management as of year end 2018.

KCM received multiple awards in 2019. We see this external recognition as confirmation of our vision on specialist services. Some examples:

- In March 2019, for the 5th consecutive year, the Kempen (Lux) Euro Credit Fund was awarded the title of Best Fund in the category of Euro Corporate Bonds on the Belgian market by De Tijd en L'Echo.
- The Morningstar rating agency gave the Kempen (Lux) Euro Credit Fund a Gold rating in March 2019. This prestigious rating is only enjoyed by approximately 6% of funds globally. The Kempen Global High Dividend Fund also kept its Gold rating.
- Kempen once again won 5 Lipper awards in April 2019. The Kempen Oranje Participaties, Kempen European High Dividend Fund and the Kempen (Lux) Global Small-cap Fund were crowned best investment funds, calculated over a time horizon of 3 years, while the Kempen Global High Dividend Fund won the award over both the 3 and 10-year horizons.
- Kempen Hedge Fund Solutions team won 3 Swiss Hedge Fund Manager awards from BANCOawards in October 2019. In the category 'Funds of Hedge Funds – Best Multi-Strategy – No Bias', the Diversified Structured Credit Pool won over a 1-year time horizon, while the Kempen Non-Directional Partnership received the prize over the 3 and 10-year horizons.
- As of November 2019, four Kempen (Lux) funds are entitled to use the Belgian Febelfin sustainability label. These funds are: Kempen (Lux) Euro Sustainable Credit, Global (Lux) Property, Global (Lux) Small-cap and Kempen (Lux) Sustainable European Small-cap.
- The Kempen Orange Fund was awarded "De Gouden Deurmat" by FiscAlert in December 2019.

Client Solutions commercial developments

Client Solutions had another commercially successful year in 2019, with an increase of assets under management (AuM) of €15.1 billion. A key contributor to the AuM growth was the appointment of KCM as fiduciary manager of Stichting Pensioenfonds PostNL, resulting in an inflow of €9.0 billion in new assets. Het nederlandse pensioenfonds (Hnpf), for which KCM also acts as fiduciary manager, also had a successful year, with commitments from Stichting Pensioenfonds Randstad and Stichting Pensioenfonds OWASE to become new clients (that will be effectuated in 2020). KCM helped Stichting Pensioenfonds Randstad as a client by transferring the pension scheme to Hnpf.

In 2019, commercial activities in the UK picked up following the publication of the conclusions of the Competition and Markets Authority. The team was well prepared to cover this increase in activities. In Q4 the team acquired several new clients: 1) the National Centre for Social Research Retirement Benefits Scheme, 2) the Premier Foods Pension Scheme[1] and 3) the Pauls Malt Pension and Life Assurance Scheme.

In October 2019, Financial News named Kempen 'Fiduciary Manager of the Year' at the Asset Management Awards Europe in London.

Van Lanschot's Investment Office was integrated into the Client Solutions department, improving efficiency significantly by bringing together knowledge and skills. This has allowed us to streamline and expand our range of products, yielding valuable insights and great innovations in the process. Innovative examples that we have recently created together include the Kempen European Private Equity Fund and Kempen (Lux) Global Listed Infrastructure Fund, as well as the launch of the BestSelect fund range with ESG-driven mandates.

1 Role to be defined following a risk transfer

As part of our drive to innovate and respond to expected trends, we are currently working on solutions such as more individualised pensions, the application of artificial intelligence in investment processes and research into new technologies that help create liquidity in illiquid assets classes, all of which could lead to an expansion of possible service formats going forward.

Following its launch in 2017, Duurzaam+ passed the €2 billion AuM barrier in December 2019. This represents an increase in our most sustainable solution for private clients of €719 million across the year.

Product development

In 2019 we launched seven new investment funds: Kempen European Private Equity Fund, Kempen (Lux) Global Listed Infrastructure Fund, two feeder funds in Kempen Oranje Participaties NV and three open architecture mandate investment funds within the new BestSelect solution.

The Kempen European Private Equity Fund is a closed-end investment fund with a minimum term of ten years. It is a hybrid investment fund that combines indirect investments in private equity funds and co-investments. Co-investments are minority investments made directly in the relevant company, alongside a private equity fund. Approximately half of the target portfolio consists of direct co-investments. The main reason for selecting this combination is to ensure sound risk diversification.

The Kempen (Lux) Global Listed Infrastructure Fund was launched in January 2019. KCM was the first Dutch asset manager to launch a fund that manages investments on a global scale in listed companies that own or manage infrastructure. The listed companies that are selected for the fund provide vital services to the community, including (toll) roads, airports, ports and satellites. They generate stable and predictable cash flows, often indexed for inflation. The high entry barriers and monopolistic position of these companies have a positive influence on the risk/return ratio. As a result, these shares often show an above-average income profile and lower volatility relative to other shares.

The Loire Participatiefonds and Seine Participatiefonds were launched in 2019. Through participation in these investment funds KCM offers investors that are subject to corporate income tax the option of investing indirectly in Kempen Oranje Participaties NV and thereby claiming tax exemption under the Participation Exemption (deelnemingsvrijstelling). Kempen Oranje Participaties NV, the master fund, enables investors to invest in small European companies. It invests in shares of undervalued companies and aims to hold 5% or more of the paid-up nominal capital of each company.

A new open-architecture platform for asset management clients of van Lanschot Kempen Wealth Management NV was introduced: BestSelect Funds. For each investment strategy within BestSelect, mandates are awarded to external investment managers in order to achieve a more cost-efficient and sustainable proposition. In 2019, three investment funds were launched within this new umbrella fund: AB US Concentrated Growth Equity, Boston Partners US Value Equity and Hermes European Growth Equity.

Apart from a number of investment fund launches, there were also a number of investment fund closures. In order to create one single sustainable European small-cap fund, the Kempen (Lux) European Small-cap Fund was merged with the Kempen (Lux) Sustainable Small-cap Fund because it already complied with the exclusion criteria of the Kempen (Lux) Sustainable Small-cap Fund. In 2018, the strategic decision was announced to discontinue the fundamental index strategy, because KCM wanted to focus on active portfolio management for its investment funds. In this context, the Kempen Global Property Fundamental Index Fund NV was liquidated in 2019. This was the last investment fund left within the fundamental indexation strategy. A further nine sub-funds within the VermogensParapluFonds were also closed.

By the end of 2019, preparations were under way to launch additional investment strategies within the BestSelect Funds. Furthermore, we aim to launch at least two feeder funds that indirectly invest in Kempen Oranje Participaties NV in order to continue to meet client demand for these types of funds.

Organisation

General socio-economic trends have considerably increased the pace of change in the world. Technological advances and changing generational preferences have resulted in one certainty – more change is on the horizon. In addition, the financial sector specifically has its own dynamic that further adds to this need for change. Consolidation in the sector, the higher regulatory burden and the shift in investment preferences require greater agility. We believe that the likelihood of our success will mainly be determined by the speed at which we are able to adapt to these changes. The alterations we made to our organisation in 2019 are consequently all aimed at improving our potential pace of change in the future. In short, we have merged the Van Lanschot Investment office with the KCM Client Solutions department, moved the Private Markets Team from Client Solutions to Investment Management, reorganised the KCM IT organisation in order to adopt Scrum at Scale and moved all UK-based activities to a limited company. All three changes are intended to improve efficiency, create more leverage through joint investments and improve adaptability for the future.

Van Lanschot Kempen occupies a strong position as a wealth manager thanks to its unique combination of private bank, asset manager and merchant bank. Our knowledge and skills allow us to deliver genuine added value to our clients. In order to be relevant to our clients, we need to have a thorough understanding of their changing needs and help them to achieve their goals in a sustainable manner. With a view to offering our clients the best investment solutions, we merged the Van Lanschot Investment Office with KCM's Client Solutions team as of 1 February 2019. This places knowledge of investments and of all our client segments under one roof. The aim is to set up a clearly structured investment process offering more standardised, high-quality services for responding to the needs of our clients, now and in the future. This should lead to greater client satisfaction and improved profitability. At the same time, this creates opportunities for our employees to increase their investment expertise and specialise further. Moreover, the new structure will be more efficient due to the merger of (partly overlapping) operations and give us greater control over operational risks. The features and organisational structure of the individual propositions for the three Van Lanschot Kempen client groups (Institutional Clients, Private Clients, Family Offices and Endowments), including support for Van Lanschot Belgium and Van Lanschot Switzerland, can now be found within Client Solutions. All Portfolio Management tasks, for private clients, institutional clients and LDI & treasury management, have been combined to form a single Portfolio Management department. Furthermore, all research, selection and communications activities for the three client groups are now housed in one Research, Selection & Communications department.

All the private markets expertise (private equity, non-listed infrastructure, land (agricultural and forestry) and real estate) has been transferred to Investment Management in order to safeguard this focus, while at Client Solutions attention will continue to be devoted to further growth in the fiduciary management and advice activities.

KCM's long-term strategic goals require sufficient (IT) change capability in order to remain competitive to maintain the required resources and create a working environment that is attractive to employees. As IT and data grow in importance, the need for a predictable change organisation that can deliver functionality on time at a consistent quality is also becoming more important. Based on these requirements and the positive experiences of the VLK Digital XL program involving Scrum at Scale, KCM Management decided to transform the KCM IT and data management organisation. The reorganisation has involved 37 employees and led to a reduction of roughly 9 FTEs. The newly-formed scrum teams will set to work on 1 January 2020, with the existing organisation running parallel up to June in order to assure continuity.

In order to be better prepared for all potential Brexit outcomes and signal our commitment to the UK market, we have decided to move all of the London-based activities to KCM UK Ltd. The variation of permission has been requested from the regulator and we expect this change to be effectuated during the first half of 2020. The decision to move the portfolio management activities for European Small Caps from Edinburgh (KCM UK Ltd) to the Netherlands (KCM NV) was put into effect in 2019. This has allowed us to use the existing company structure.

In response to the coronavirus outbreak, the Van Lanschot Kempen Group has taken additional measures to secure its services and the interests of its clients. The advice of the Dutch National Institute for Public Health and the Environment (RIVM) is being followed closely and several (facility) measures have been implemented, such as dividing critical teams over three main office locations and prohibiting travel between these offices. In principle, our employees are working from home wherever possible.

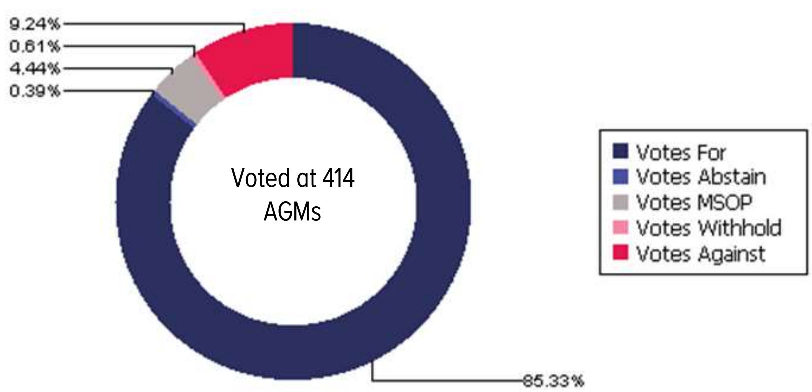
In November 2019 Mr Luttenberg (COO), member of the Board of Directors, has announced that he will step down. His resignation will take effect on 1 May 2020. In his place, Mr Jansen will be appointed to the KCM Board of Directors pending approval from the Netherlands Authority for the Financial Markets (AFM). On 12 March 2020 it was announced that after close consultation, Van Lanschot Kempen and Leni Boeren have agreed that Leni Boeren will be stepping down as Chair of KCM and as a member of the Van Lanschot Kempen Executive Board with immediate effect for personal reasons. Until 1 July 2020, Leni Boeren will focus on a number of specific strategic projects within Asset Management as well as on the smooth transfer of her duties. She will be with the organisation until the end of this year. Constant Korthout, CFRO of Van Lanschot Kempen, will assume Leni Boeren's responsibilities as of 12 March 2020. The Statutory Board of Van Lanschot Kempen will decide soon on how best to fill this vacancy.

Sustainable & impact investment

Our sustainable & impact investment policies are informed by our company mission, laws and regulations, as well as the international treaties we and our clients endorse. Our engaged ownership approach is shaped in four ways:

- Integration of ESG criteria into the investment processes – ESG factors are part of our funds' investment processes to ensure that sustainable investment risks and opportunities are appropriately reflected in expected returns;
- Engagement on controversial issues and exclusion in the absence of a favourable outcome – for instance, this ensures that none of Kempen's funds invest in Bayer as a result of failed engagement;
- Positive impact – our Global Impact Pool reached €100 million in invested assets at the end of 2019;
- Climate change – in 2019 Van Lanschot Kempen signed the 'Klimaatakkoord', under which a group of about 50 financial institutions have committed to the climate goals of the Dutch government. The financial sector (banks, pension funds, insurers and asset managers) is taking the initiative to contribute to the execution of the 'Klimaatakkoord' and the Paris Accord. The 'Klimaatakkoord' aims to reduce greenhouse gas emissions in a cost-effective manner by 49% in 2030 compared to 1990.
- Exercising our voting rights – in 2019, we voted at 414 Annual General Meetings of Shareholders (AGMs). We voted against proposed agenda items (put forward by both management and shareholders) in 9.24% of the cases. Please see the figure below for the full breakdown of votes.

Figure 1: Vote Cast Statistics 2019



* MSOP stands for Management say-on-pay.

For more detailed information on our sustainable investment approach and policies please visit our website, or see the bank-wide Sustainability KPIs in the Van Lanschot Kempen annual report or read Kempen RI Report.

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 our report on application of the Code in 2019.

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 Van Lanschot Kempen Wealth Management employees must attend an in-house ethics course as part of compulsory training under the law – on such matters as AML, privacy and anti-bribery – and the Compliance department ensures that they do so. 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 such potential conflicts, we first make unambiguous agreements with our clients, a point we have made above. 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 policies. 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.com/nl/asset-management.
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. To meet the requirements of the Fund Governance Code, we have appointed a custodian for all of our regulated KCM investment funds. In addition, we have in place a Supervisory Committee for a number of investment funds incorporated in the Netherlands. This type of supervision is particularly aimed at investment funds i) that are accessible to investors from outside Lanschot Kempen, and/or ii) whose investment policies KCM carries out. 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.

Risks and risk management

Risk management

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

Risk management department

Our Risk Management department supports and advises the KCM Management Board on identifying and managing the risks to which KCM is exposed. The department acts independently, works closely with VLK's Risk Management department and oversees compliance with the risk policy as adopted by the risk management committees, reporting on this directly to the KCM management team and the relevant risk management committees. It also supports implementation of guidelines, regulations and internal control measures in relation to risk control.

Compliance department

The Compliance department is responsible for designing and disseminating our compliance structure as part of internal control, thus ensuring that KCM demonstrably complies with the law. The department takes relevant laws and regulations and translates them into company practices through compliance guidelines, provides advice on these practices and guidelines, and monitors compliance. It thus enables our employees to comply with relevant laws and regulations and so enhances the integrity and solid reputation of Van Lanschot Kempen as a whole. The Compliance department operates independently and reports directly to the Chairman of VLK's Executive Board and the KCM Management Board. It also reports to the VLK Supervisory Board's Audit and Compliance Committee (ACC).

Internal audit department

Group Audit is tasked with Van Lanschot Kempen's internal audit function and conducts independent and objective audits. All of Van Lanschot Kempen's activities – i.e. Van Lanschot Kempen NV, Van Lanschot Kempen Wealth Management NV and Kempen Capital Management NV, as well as their domestic and foreign holdings – are included in Group Audit's remit. Group Audit tests the design and operational effectiveness of internal risk management and control systems, and aims to improve the efficacy of these systems, and in doing so it supports VLK's Executive Board and Audit and Compliance Committee as well as the KCM Management Board in performing their duties. Group Audit operates independently and reports directly to the Chairman of VLK's Executive Board and the KCM Management Board and is accountable to VLK Supervisory Board's Audit and Compliance Committee.

Internal control

KCM conducts annual risk self-assessments through risk-oriented analyses such as the risk appetite statement, the risk heat map and the internal capital adequacy assessment process (ICAAP). Notable steps include:

- 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;
- As well as 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;
- KCM ICAAP focuses on developing and analysing stress scenarios covering KCM and also relates these to the VLK ICAAP.

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

For the purpose of these risk assessments, we have identified material present and future risks and estimated future capital adequacy using scenario analyses. The following observed and identified risks are of particular relevance:

1. There is a risk of a substantial decrease in security prices over a prolonged period causing a reduction in assets under management. This would lead to a drop in income due to reduced management fees. The nature of KCM's business implies opting for an asset mix across the portfolios, of which the risks are known and can be adequately controlled. The mix of different asset classes generates a diversification effect, which usually has a mitigating effect on the overall price decline. Additionally, if this scenario should occur, KCM will take measures to reduce costs, for example by limiting the number of employees (not replacing departing employees or a reorganisation).
2. There is a risk of KCM providing investment advice that is perceived by the client not to be in line with the investment guidelines or risk appetite for an institutional client. This risk is mitigated by a range of measures, including: 1) Retail Clients deserve an extra duty of care, whereas Institutional Clients - despite being treated with a fiduciary duty of care - also assume responsibility themselves. Institutional Clients accept 'advice' as a fiduciary service but 'with limitations', given their own decision-making; 2) The four-eyes principle is always applied within the Investment Strategy team, whereby one senior employee drafts the advice which is then signed off by the department manager. KCM's liability is defined as advice (only) in contracts with Institutional Clients; 3) Within KCM, the Manager Selection & Research Team is dedicated to selecting, monitoring and reviewing (external) managers. The selection advice is the result of intensive Operational Due Diligence and Investment Due Diligence. The Institutional Client is still responsible for the decisions it takes based on the advice or whether it accepts the advice on 'selected/advised external managers'; 4) In order to reduce the risk of violating clients' investment guidelines, both pre- and post-trade controls are conducted by both Portfolio Management and Risk Management. The projected loss for KCM under this stress scenario is estimated at €70,000. A few minor incidents of this type occurred in 2019, and payments fitted amply within expected losses.
3. There is a risk of errors being made in trade execution (FX hedging) on behalf of clients or funds. An extreme movement in the underlying currency or currencies leads to a significant loss due to the erroneous hedges. This risk is mitigated by a range of measures, including: 1) within KCM, Risk Self Assessments (RSAs) are conducted periodically and additional measures taken where necessary; 2) KCM has implemented an internal control framework, which is the foundation of the annual ISAE3402 declaration; 3) FX models and processes have been independently validated by an independent (external) party since 2017. Also efforts are focused towards creating business process standards around FX hedging; 4) Professional liability insurance. The required liability insurance cover of VLK is assessed annually and was increased from 2018 onwards from €100 million to €200 million. The projected loss for KCM under this stress scenario is estimated at €1,130,000. A few minor incidents of this type occurred in 2019, and payments fitted amply within expected losses.

We also have in place a description of our administrative organisation and internal control system. In 2019, we made additional improvements to this ISAE 3402 framework in order to strengthen our internal control mechanisms. These improvements are described in detail in the relevant report. During the 2019 reporting year, the Management Board established that the administrative organisation and internal control system functioned effectively and in accordance with their descriptions. This is confirmed in an ISAE 3402 report on the 2019 financial year, on which an unqualified auditors' report was issued by the external auditors on 24 January 2020.

Risks

Market risk

KCM's core activity is to manage the assets of clients (and not for any proprietary business) and we are therefore not 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 wide range 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. Our services do of course imply credit risk in terms of management fees 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 therefore not directly exposed to liquidity risk, although liquidity risks may indirectly affect our liquidity profile. Our wide range 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 reserves will be inadequate without additional measures, steps will be taken in consultation with Van Lanschot Kempen Wealth Management and Van Lanschot Kempen to increase the amount of capital. The most obvious route would be for any capital shortfalls to be made up through capital contributions to KCM by KCO, but other avenues are also possible.

KCM remuneration policy: general principles

Introduction

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

This means that the Van Lanschot Kempen 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 of 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 Kempen 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 Kempen considers acceptable. Van Lanschot Kempen ensures that the remuneration policy is applied across the group.
The following general remuneration policy principles apply for all employees working at KCM:

- Outperformance is rewarded;
- A system of differentiated remuneration applies;
- An employee's variable remuneration is based on the performance of Van Lanschot Kempen, 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; selected 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 Kempen; the awarding of variable remuneration to KCM employees is partly related to the long-term objectives of Kempen & Co NV, which was merged as of 1 January 2020 into Van Lanschot Kempen Wealth Management 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 Van Lanschot Kempen's financial position and if it is justified by the performance of Van Lanschot Kempen, KCM and the employee concerned; and (ii) Van Lanschot Kempen holds the capital buffers as required by the Dutch Financial Supervision Act (Wft) and implementing regulation;
- None of Van Lanschot Kempen'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 Kempen has no intention of introducing such activities, components or structures;
- In the event that Van Lanschot Kempen 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 Kempen or in the event of incompetent or incorrect conduct on the part of an employee.

A more detailed description of our remuneration policy can be found at www.kempen.com, 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 financial 2019

At 31 December 2019, KCM was acting as the manager of 29 alternative investment funds (AIFs) and 33 undertakings for collective investment in transferable securities (UCITS). Total assets under management for AIFs amounted to €2,678 million on 31 December 2019, and €9,338 million for UCITS.

The table on the following page contains information on the remuneration of identified staff. KCM's identified staff are KCM employees, including KCM Management, whose activities have a material influence on our risk profile or that 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 hold a senior management or risk-taking position. We do not attribute any staff costs to individual investment institutions.

	Senior management*	Other employees	All employees
Number of employees (in FTEs, average for financial year)	5	260	265
Remuneration 2019			
Total fixed remuneration	€2,567,650	€29,253,679	€31,821,329
Total variable remuneration**	€496,988	€5,331,937	€5,828,926

* Leni Boeren was chair of the Management Board of Kempen & Co NV, which was merged as of 1 January 2020 into Van Lanschot Kempen Wealth Management NV, and was 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). She is also a director of KCM and is therefore included in the table in the 'Senior management' category. Ms Boeren is not a member of KCM's identified staff.
** In keeping with Dutch laws and regulations, variable remuneration relates to the variable remuneration as recognised in profit or loss.

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 2019.

Outlook

General

The coronavirus outbreak has caused the outlook for the global economy to become extremely uncertain. Leading indicators had been improving prior to the outbreak, although they were not yet pointing to exuberant growth. At the moment we are not seeing the types of excesses in the global economy that have caused recessions in the past, such as excessive levels of corporate investment, run-away housing markets, inflation or extreme lending levels. Yet the coronavirus outbreak is hitting the global economy hard. A global recession is inevitable now that large sections of the global economy have more or less ground to a halt. We will see rapidly contracting economies and rising unemployment over the next few months. Financial markets have also been severely affected; equity prices have plummeted at an unprecedented rate and credit spreads have widened. A rapid V-shaped recovery in which everything returns to normal from the third quarter seems improbable. A U-shaped recovery in which the negative effects persist for longer is more likely in our view. In this scenario, we assume that the restrictive social measures will have an impact and ultimately that a treatment and vaccine will be developed against the coronavirus. This view is partly based on the enormous packages of stimulatory and fiscal measures announced by central banks and governments. These could prevent the recession evolving into a financial crisis and ensure that businesses and households get through this difficult period.

KCM

Although our results are largely determined by trends in the financial markets, our relatively strong performance, highly-motivated employees, solid (IT) systems, personal connection with clients and existing mandates mean that there are sound prospects for growth in the longer term, 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. The sharp decline of equity markets following the Covid-19 pandemic will have a significant short-term impact on our total income as our management fees are primarily based on total AuM. For this reason KCM will focus on tight cost control. At the time of publication, the Management Board does not foresee any material capital-intensive investments, nor does it expect any changes to current funding.

Amsterdam, 29 April 2020

The Management Board,

C.T.L. Korthout (as of 12 March 2020)   H.Th. Luttenberg   L.M.T. Boeren (until 12 March 2020)

Balance sheet at 31 December (before result appropriation)

		31/12/2019 x €1,000	31/12/2018 x €1,000
Assets			
Fixed assets			
Intangible assets	I	**6,640**	**7,443**
Tangible assets	II	**858**	**280**
Current assets			
Receivables from related parties	III	**30,375**	**29,360**
Current receivables, prepayments and accrued income	IV		
Management fees receivable		28,816	14,628
Tax and social insurance premiums		68	-
Other receivables, prepayments and accrued income		831	1,912
		29,715	**16,540**
Cash and cash equivalents	V	**2,987**	**3,473**
		70,575	**57,096**
Equity & Liabilities			
Equity	VI		
Paid-up and called-up share capital		92	92
Premium reserve		6,700	6,700
Other reserves		21,300	19,557
Undistributed profit		16,299	11,739
		44,391	**38,087**
Provisions	VII		
Deferred tax liabilities		1,189	1,281
Other provisions		55	-
		1,244	**1,281**
Current liabilities, accruals and deferred income	VIII		
Management fees payable		3,752	2,993
Amounts owed to related parties		15,804	11,582
Tax and social insurance premiums		1,318	843
Other liabilities, accruals and deferred income		4,066	2,310
		24,939	**17,728**
		70,575	**57,096**

Profit and loss account for the year ended 31 December

Profit and loss account for the year ended 31 December 2019

		2019	2018
		x €1,000	*x €1,000*
Income			
Management fees	IX	101,057	93,943
Consultancy fees	X	893	991
Other income	XI	46	14
Total income		**101,996**	**94,948**
Expenses			
Staff costs	XII	49,583	43,438
Amortisation of intangible assets	I	804	846
Depreciation of tangible asssets	II	569	98
Other operating expenses	XIII	29,217	34,846
Total expenses		**80,172**	**79,228**
Operating result		***21,824***	***15,720***
Interest income		62	1
Interest expenses		11	11
Interest result		**51**	**-10**
Result before tax		***21,875***	***15,710***
Tax	XIV	5,576	3,971
Result after tax		***16,299***	***11,739***

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

General

The object of Kempen Capital Management NV (KCM) is to manage and administer the assets of third parties, to provide advice and to invest in, manage and finance other enterprises and companies. KCM has its registered office at Beethovenstraat 300, 1070 AR Amsterdam, the Netherlands and is registered under number 33181992 at the Chamber of Commerce.

The financial statements are prepared in accordance with the provisions of Title 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Dutch Accounting Standards, as published by the Dutch Accounting Standards Board ('Raad voor de Jaarverslaggeving').

The financial statements over 2018 are consolidated financial statements; following the liquidation of VermogensParaplu Beheer BV in 2018, the financial statements over 2019 are separate financial statements.

The accounting principles have remained unchanged from prior year, 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 chiefly 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.

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, clause 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

Until 31 December 2019 Kempen & Co NV has been owned (indirectly) by Van Lanschot NV since January 2007. Kempen Capital Management NV was a wholly owned subsidiary of Kempen & Co NV until 31 December 2019. As of 1 January 2020 Kempen & Co NV merged with Van Lanschot NV. The name of the new combination has been changed into Van Lanschot Kempen Wealth Management NV (VLKWM).

KCM's financial data are fully consolidated in the financial statements of VLKWM. Operationally, KCM was 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.

Related parties

Kempen & Co NV qualifies as a related party of KCM, as do Van Lanschot NV (as of 1 January 2020 VLKWM), Van Lanschot Bankiers België and Kempen Capital Management UK Ltd . All related-party transactions take place on market terms.

Acquisitions and disposals of group companies

The results and identifiable assets and liabilities of an acquired company are recognised in the consolidated statements from the acquisition date. The acquisition date is the date from which decisive control can be exercised in the relevant company.

The acquisition cost comprises the amount or the equivalent thereof that is agreed for the acquisition of the relevant company, plus any directly attributable costs. If the acquisition price exceeds the net fair value of the identifiable assets and liabilities, the surplus is capitalised as goodwill under intangible assets. If the acquisition price is below the net fair value of the identifiable assets and liabilities, the difference (negative goodwill) is recognised as an accrued liability.

Cash flow statement

The whole of KCM's capital is provided indirectly by Van Lanschot NV (as of 1 January 2020 VLKWM) 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 www.vanlanschotkempen.nl. In accordance with Article 360.104 of the Dutch Accounting Standards, a cash flow statement has not been prepared for KCM.

IFRS 16 Leases

In order to align with the accounting principles of group company Van Lanschot Kempen NV, KCM will adopt IFRS 16 as of 2019. Pursuant to Dutch Accounting Standards Board paragraph 292.101, KCM is permitted to use, instead of the provisions of DAS 292 'leasing', the provisions of IFRS 16 for recognition, measurement and disclosure of lease contracts.
IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and will result in almost all leases being recognised on the balance sheet, similar to the accounting for finance leases under IAS 17. We have applied the standard from its mandatory adoption date of 1 January 2019 and have opted to use the modified retrospective approach. The reclassifications and adjustments arising from the new leasing rules are recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, KCM recognised lease liabilities. These were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 1.19%, as derived from our Treasury department calculations. We have used the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The following table reconciles the future rental commitments for operating lease contracts under IAS 17 to the lease liability under IFRS 16 on transition to IFRS 16 as of 1 January 2019:

Reconciliation of lease liabilities initially recognised (€ million)	*x €1,000*
Operating lease commitments disclosed under IAS 17 at 31 December 2018	**1,023**
(Less) discounting effect using average incremental borrowing rate of 1.19% at 1 January 2019	-14
Lease liability recognised under IFRS 16 at 1 January 2019	1,009
The recognised right-of-use assets as at 1 January 2019 relate to the following types of assets:	
Right-of-use assets – buildings	1,009

The right-of-use assets are presented under tangible assets in the financial statements. For information regarding the carrying amount, additions and depreciation by class of assets see Note II (Tangible assets). Lease liabilities are presented in the financial statements under Other liabilities, accruals and deferred income (see Note VIII, Current liabilities, accruals and deferred income). Interest expense on leases and amortisation on the right-of-use assets during the year are disclosed within the statement of profit or loss, and are disclosed in, respectively, Note VIII (Current liabilities, accruals and deferred income) and Note II (Tangible assets).

Accounting policies

General

Assets and liabilities are generally stated at cost of acquisition. 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 KCM 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 fair value less cost to sell and the value in use. An impairment loss is recognised in profit or loss and the carrying value of the asset reduced simultaneously.

If it is established that an impairment that was recognised in the past no longer exists or has reduced, the increased carrying amount of the asset concerned is set no higher than the carrying amount that would have been determined if no impairment value adjustment for the asset concerned had been reported.

For financial assets recognised at amortised cost, the impairment is measured as the difference between the asset's carrying amount and the best available estimate of future cash flows, discounted at the financial asset's original effective interest rate upon initial recognition.

The impairment loss recognised must be reversed if the reduction of the impairment is related to an objective event after amortisation, up to a maximum of the amount needed to value the asset at amortised cost at the time of the reversal if there would not have been an impairment. The reversed loss is recognised in the profit and loss account.

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.

Deferred tax is recognised using the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts recognised in these statements. Deferred tax is calculated at the tax rate in force at the end of the financial year, or at rates to be applied in future years, in so far as legally imposed. Deferred tax is recognised at nominal values.

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 commissions of management fees or services as part of normal – not one-off – business activities.

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 KCM by the group head.

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.

Exchange differences

Exchange differences arising upon the settlement or conversion of monetary items are recognised in the profit and loss account in the period that they arise.

Other costs

These are costs charged to the year and that are not directly attributable to the cost of goods or services.

Taxation

Tax is calculated on the result before tax in profit and loss, factoring in any available, unrecognised tax losses from previous financial years (in as much as not included in deferred tax) and tax-exempt profits plus non-deductible costs. For VAT purposes, KCM forms a tax entity with Kempen & Co NV. For the purpose of corporation tax, KCM forms a tax entity with Van Lanschot Kempen NV. Settlement takes place between Van Lanschot Kempen NV and KCM, based on the commercial result. This worked out as a nearly full corporate tax charge in 2019.

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:

	2019	*2018*
	x €1,000	*x €1,000*
At start of year	9,200	9,200
Accumulated amortisation	1,756	910
Carrying amount	**7,444**	**8,290**
Movements during year		
Investments	-	-
Amortisation	804	846
At end of year	**6,640**	**7,444**

Intangible assets represent the fair value of the client portfolios in respect of the acquisition of fiduciary management activities in the United Kingdom (€2,500,000 in 2015) and VermogensParaplu Beheer BV (€6,700,000 in 2017). This value is determined on the basis of the present value of expected future cash flows. The client base is amortised on a straight-line basis at a rate of 14.2% and 6.7% per annum respectively.

II Tangible assets

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

	2019	*2018*
	x €1,000	*x €1,000*
At start of year	2,548	2,517
Accumulated depreciation	2,268	2,170
Carrying amount	**280**	**347**
Movements during year		
Investments	1,147	31
Depreciation	569	98
At end of year	**858**	**280**

2019 financial year							*x €1,000*
	Hardware	**Software**	**Alterations**	**Communications equipment**	**Inventory**	**Right-of-use - buildings**	**Total**
At 31 December 2018	**39**	**183**	**-**	**16**	**42**	**-**	280
Impact of adopting IFRS 16	-	-	-	-	-	1,009	1,009
At 1 January 2019	39	183	-	16	42	1,009	1,289
Investments	-	-	138	-	-	-	138
Disposals	-	-	-	-	-	-	-
Depreciation	22	60	3	5	13	466	569
At 31 December 2019	**17**	**123**	**135**	**11**	**29**	**543**	**858**

Cumulative							*x €1,000*
	Hardware	**Software**	**Alterations**	**Communications equipment**	**Inventory**	**Right-of-use - buildings**	**Total**
Acquisition costs	364	2,021	213	26	62	1,009	3,695
Cumulative depreciation	347	1,898	78	15	33	466	2,837
At 31 December 2019	**17**	**123**	**135**	**11**	**29**	**543**	**858**

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 Van Lanschot NV (as of 1 January 2020 VLKWM) 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.

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 2019. 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 KCM.

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.

Premium reserve

The premium reserve did not change in 2019. The premium reserve is freely distributable.

Other reserves

Movements in reserves can be broken down as follows:

	2019	***2018***
	x €1,000	*x €1,000*
At start of year	19,557	18,425
Profit distribution (undistributed profit previous year)	11,739	13,132
Dividend payments	-10,000	-12,000
At end of year	**21,296**	**19,557**

Undistributed profit

	2019	***2018***
	x €1,000	*x €1,000*
At start of year	11,739	13,132
Dividend payment	-10,000	-12,000
Addition to Other reserves	-1,739	-1,132
Result for the financial year	16,299	11,739
At end of year	**16,299**	**11,739**

The undistributed profit for the current financial year amounts to €16,299,264. The Management Board is proposing to distribute a dividend to an amount of €15,000,000, equivalent to €74,257.43 per share. The difference between the result after tax of €16,299,264 and the dividend to be distributed, amounting to €1,299,264, will be added to Other reserves. The annual report does not yet reflect this proposal.

VII Provisions

Movement in the deferred tax liabilities can be broken down as follows:

	2019	***2018***
	x €1,000	*x €1,000*
At start of year	1,281	1,675
Change	-92	-149
Rate change	-	-245
At end of year	**1,189**	**1,281**

Upon the acquisition of VermogensParaplu Beheer BV, a deferred tax liability of €1,675 was incurred in 2017, which is being amortised on a straight-line basis over a period of 15 years.

Movements in other provisions can be broken down as follows:

	2019	***2018***
	x €1,000	*x €1,000*
At start of year	-	200
Additions	55	-
Withdrawals	-	-
Release	-	-200
At end of year	**55**	**-**

Compared with 2018, provisions increased by €55,000, mainly due to the provision for restructuring. Settlement is expected to take place within one year.

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 2019 and that cannot be set off against outstanding receivables.

Amounts owed to related parties

This item concerns a relationship with related parties Van Lanschot NV (as of 1 January 2020 VLKWM) and Kempen & Co NV with maturities of less than one year. No interest is charged or credited on the current account balance.

Amounts owed in respect of tax and social insurance premiums

This relates to value added tax payable in respect of the fourth quarter of 2019.

Other liabilities, accruals and deferred income

This relates to accruals, accounts payable to suppliers and lease liabilities.
Interest expenses on lease amounted to € 5K at year-end 2019, and was recognised in the profit and loss account under interest expenses.

IX Management fees

Management fees increased by 8% in 2019 compared with 2018 and can be broken down as follows:

	2019	*2018*
	x €1,000	*x €1,000*
Management fees	91,858	84,535
Service fee income	14,632	14,495
Service fee expenses	-5,561	-5,545
Performance fees	128	458
Total management fees	**101,057**	**93,943**

X Consultancy fees

Consultancy fees relate mainly to services provided for the benefit of clients of Van Lanschot NV (as of 1 January 2020 VLKWM).

XI Other income

Other income mainly comprises positive currency commissions of €45,655.

XII Staff costs

	2019	*2018*
	x €1,000	*x €1,000*
Salaries	36,839	32,217
Pension costs	3,912	3,905
Social security contributions	3,379	2,831
Other staff costs	5,453	4,485
Total staff costs	**49,583**	**43,438**

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 accounted for 16% of salary costs (2018: 18%).

Pension costs allocated to the reporting period are charged on to KCM 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

Staff working at KCM are employed by Kempen & Co NV. The average number of staff on full time basis between 1 January and 31 December 2019 was 265 (2018: 209). The average number of staff working outside the Netherlands was 21.5 (2018: 19.5).

Management Board remuneration

The Management Board of Kempen Capital Management NV comprised two members in the 2019 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 of Kempen Capital Management NV is comprised in line with the Van Lanschot Kempen pillar 3 disclosures*.

The Management Board remuneration for the 2019 financial year amounted to €1,634,943, compared with €1,489,672 in 2018.

* As of 2019 the disclosure of Management Board remuneration of Kempen Capital Management NV has been brought in line with Van Lanschot Kempen NV pillar 3 disclosures.

XIII Other operating expenses

	2019	*2018*
	x €1,000	*x €1,000*
ICT costs	9,515	11,450
Charged-on overheads	2,663	7,704
News services	6,555	5,204
Accommodation costs	3,108	2,891
Commercial costs	2,180	2,206
Consultancy fees	2,425	3,320
Fund costs	3,013	2,611
Office costs	360	448
Administration costs	149	38
Other	-751	-1,027
Total other operating expenses	**29,217**	**34,845**

For more detailed information about the audit fees, references is made to note 33 'Other administrative expenses' in the consolidated financial statements of Van Lanschot Kempen NV in 's-Hertogenbosch, the Netherlands.

XIV Taxation

Tax is calculated at a nominal rate of 25%; the effective tax rate worked out at 25% (2018: 25%).

XV Off-balance-sheet assets and liabilities

Off-balance-sheet assets comprise rents:

	31/12/2019	*31/12/2018*
	x €1,000	*x €1,000*
Office rental obligations		
< 1 year	-	465
≥ 1 year < 5 years	-	558
≥ 5 years	-	-
Total	**-**	**1,023**

Due to the fact of implementation of IFRS 16 in 2019 there are no off balance rental obligations anymore.

Events after the reporting period

Subsequent events

In November 2019 Mr Luttenberg (COO), member of the Board of Directors, has announced that he will step down. His resignation will take effect on 1 May 2020. In his place, Mr Jansen will be appointed to the KCM Board of Directors pending approval from the Netherlands Authority for the Financial Markets (AFM). On 12 March 2020 it was announced that after close consultation, Van Lanschot Kempen and Leni Boeren have agreed that Leni Boeren will be stepping down as Chair of KCM and as a member of the Van Lanschot Kempen Executive Board with immediate effect for personal reasons. Until 1 July 2020, Leni Boeren will focus on a number of specific strategic projects within Asset Management as well as on the smooth transfer of her duties. She will be with the organisation until the end of this year. Constant Korthout, CFRO of Van Lanschot Kempen, will assume Leni Boeren's responsibilities as of 12 March 2020. The Statutory Board of Van Lanschot Kempen will decide soon on how best to fill this vacancy.

A new type of coronavirus (Covid-19) emerged in China in December 2019. This virus has emerged in many countries worldwide and measures have been implemented to stop its spread. The outbreak of the coronavirus and its spread in 2020 has affected the worldwide economy. In March 2020 financial markets have fallen due to a significant rise in uncertainty. Since this event is classified as a non-adjusting subsequent event it will not give new insights into the valuation of assets and liabilities as per 31 December 2019. Despite the fact that the COVID-19 pandemic will have a huge impact on society and the economy in general, we expect the long-term impact on Kempen Capital Management NV to be limited. The capital and liquidity position of KCM and its shareholder are sound. The sharp decline of equity markets following the Covid-19 pandemic will have a significant short-term impact on our total income as our management fees are primarily based on total AuM. For this reason KCM will focus on tight cost control.
Although total income might decrease temporary due to a decline in equity markets, KCM concluded the going concern assumption is appropriate due to these strong capital and liquidity positions.

Amsterdam, 29 April 2020

The Management Board,

C.T.L. Korthout (as of 12 March 2020)   H.Th. Luttenberg   L.M.T. Boeren (until 12 March 2020)

Other information

Profit appropriation

Pursuant to Article 31, paragraph 1 of KCM'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.

Independent Auditor's report

Independent auditor's report may be found on page 31.

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Independent auditor’s report

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

Report on the financial statements 2019

Our opinion

In our opinion, the financial statements of Kempen Capital Management N.V. (‘the Company’) give a true and fair view of the financial position of the Company as at 31 December 2019, 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 2019 of Kempen Capital Management N.V., Amsterdam.

The financial statements comprise:

- the balance sheet as at 31 December 2019;
- the profit and loss account for the year then ended; and
- the notes, comprising the accounting policies and other explanatory information.

The financial reporting framework 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. We have further described our responsibilities under those standards in the section ‘Our responsibilities for the audit of the financial statements’ of our report.

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

Independence

We are independent of Kempen Capital Management N.V. in accordance with the ‘Wet toezicht accountantsorganisaties’ (Wta, Audit firms supervision act), the ‘Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten’ (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the ‘Verordening gedrags- en beroepsregels accountants’ (VGBA, Dutch Code of Ethics).

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Emphasis of matter - uncertainty related to the effects of the corona virus (COVID-19)

We draw attention to the "Events after the reporting period" in the financial statements in which the management board has described the possible impact and consequences of the corona virus (COVID-19) on the Company and the environment in which the Company operates as well as the measures taken and planned to deal with these events or circumstances. This note also indicates that uncertainties remain and that currently it is not reasonably possible to estimate the future impact. Our opinion is not modified in respect of this matter.

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:

- the 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 the 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 of 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 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

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 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 and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material 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.

Eindhoven, 29 April 2020
PricewaterhouseCoopers Accountants N.V.

Original has been signed by Y.H.C. van Boekel RA

Appendix to our auditor's report on the financial statements 2019 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 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.