

## Why active is attractive: the case for engagement

### Lars Dijkstra

At Kempen, we wholeheartedly believe in active portfolio management: the road to a sustainable future is not paved with gold, but with good guidance. For over twenty years, we have taken a proactive approach focused on deep engagement and long-term stewardship - which we call [The Real Active](#). We engage with both large and small cap companies to help stimulate and improve their operations in a way that leads to positive social, environmental and financial outcomes.

### Active management methodology

Firstly, we are not content with engagement for the sake of it. In order to ensure the impact and success rate of our engagement efforts, we set clear goals and timeframes (see figure) and have an aim to move every engagement at least one milestone further every six months.

In 2021, we focused more frequently on environmental and governance issues than on social, with climate change being the most significant topic at hand. You can read more on our approach in Kempen's [Annual Stewardship and Sustainable Investment report](#).

**Figure 5: Milestone Methodology**



Source: Kempen 2021

### It's not just about us

Part of our approach is looking holistically at challenges, such as the low-carbon transition, and engaging in a way that drives down real-world emissions, not just the emissions in our portfolio.

The steel industry, for example, contributes around [8%](#) of global greenhouse gas emissions and it would be very simple for Kempen to simply divest from this industry and claim we were doing the right thing. However, we also recognise that steel is a critical part of the global economy and that we need it to build renewable energy structures, such as wind turbines and solar panels.

As a result, we have a long-term investment and engagement strategy with companies, such as with [Befesa](#). Befesa is a global market leader in treating industrial waste from the steel industry. Befesa plays a crucial role in the production of steel from recycled scrap, which in itself is more sustainable than using iron ore for primary steel production. Producing recycled steel requires up to seven times less CO2 compared to primary steel production. Befesa has a capacity to recycle [999,000 tonnes](#) of steel dust annually, saving on the emissions that would be created by producing primary steel.

Acting as a long-term engaged shareholder, we have been able to help Befesa identify and implement improvements, so that the company's ESG rating with Sustainalytics was upgraded from [Medium to Low](#) ESG

risk. As we have continued to engage with Befesa to drive for continuous improvement, Befesa committed to enhance its upcoming sustainability report, thereby addressing carbon emission reduction initiatives and corresponding target setting.

### **Engaging both small and large companies**

The roots of our company are in active ownership, as our very first investments involved working closely with Dutch small caps. By their nature, small caps are well-positioned to benefit from engagement. Kempen as an investor can wield influence to pivot their businesses towards working more sustainably.

When engaging with Fujitec for example, a Japanese producer of elevators and escalators, we found the company was repeatedly underperforming on areas such as corporate governance and stakeholder communications. After years of continuous constructive engagement behind closed doors, which turned out to be only partly effective, we took the unusual step of [publicly calling on](#) the Board of Directors to take action. Following this we were encouraged by [Fujitec's commitments](#), with planned improvements on capital allocation and corporate governance scheduled to strengthen its competitiveness, thereby benefiting all stakeholders.

Engaging with some of the largest global multinationals requires a different approach - for example it may require collaboration with like-minded investors - but can be equally impactful.

We currently act as lead and supporting investors on several engagements for Climate Action 100+, the world's largest shareholder engagement, and following efforts with [Royal Dutch Shell](#) in April 2020, the company radically updated its climate strategy to more closely align with the Paris Agreement and move towards a net-zero emissions energy business by 2050 – a plan we continue to monitor closely.

Similarly, we saw change at British threads supplier [Coats Group](#) following a Kempen engagement. The company has accelerated its approach to living wages, and in 2021 took action to bring salaries for employees in four countries up to living wage levels.

### **If engagement doesn't work, we are willing to pull our capital**

Kempen believes in the power of active management, but when shareholder engagement does not bear the results required, we are not afraid to divest. Following years of attempted engagement for change with Exxon Mobil, for example, Kempen divested its \$28.98 million stake, as we deemed their climate policies to be "[too little too late](#)".

In a similar vein, aside from its devastating humanitarian impact, Russia's invasion of Ukraine and the subsequent economic sanctions have had a ripple effect across the globe, causing huge spikes in energy prices and severely affecting industry directly. Although Kempen's portfolios have little investment in the Russian economy, we are willing to abide by such actions to 'squeeze the Kremlin out'. In this way, the freezing of assets or complete divestment may be considered a necessary strategy.

Active asset management makes a difference: to our people, companies' personnel and to the planet. Responsible investment is at the core of our strategy and long-term engagements enable us to have skin in the game, influencing the approach companies take towards sustainability with a view to making significant, meaningful change.

If you are keen to understand how and why we engage, we'll be hosting an exclusive fireside chat on May 10th from 11 till 11.30 CET with our Portfolio Managers in charge of some of the engagements discussed in this article. [Please join us by registering here.](#)

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