

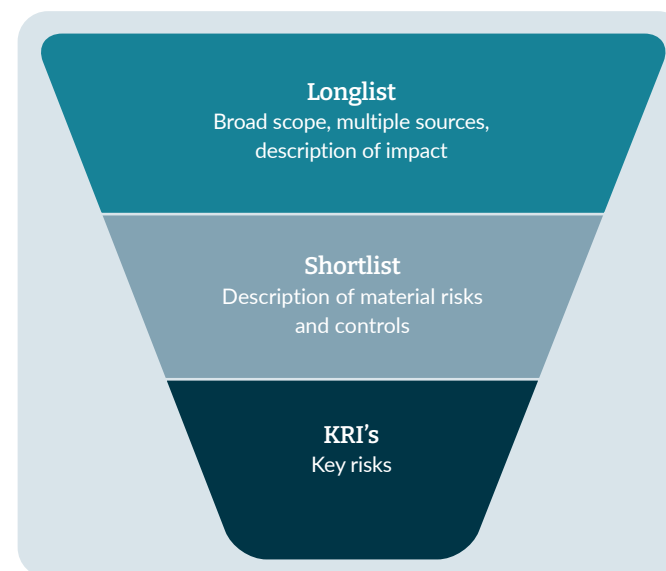
Reviewing the sustainability risk management cycle

In 2023, we walked all our fiduciary clients through their review of their ESG risk management process on the basis of the guidance issued by De Nederlandsche Bank (DNB). Previously, Van Lanschot Kempen had been involved in the design of DNB's definitive guidance on ESG management, known as the "Guide".

Together with our clients, we go through the ESG risk management process in three steps:

1. Drawing up a longlist of risks. First, we identify the ESG risks based on a variety of external resources (such as MSCI and SFDR) and determine the risk appetite of each fiduciary client based on our integrated risk policy. For every risk, we help highlight its impact on the investment portfolios and assess their materiality.
2. Drawing up a shortlist of risks. For ESG risks classified as material, we offer indicators for the client to measure risks before and after their management, and to compare these with their own RI policies. We also support our clients in designing a normative framework – i.e. a framework that reflects the client's risk appetite – to help prioritise the material risks. This results in consistent risk assessment and an efficient process.
3. Drawing up and monitoring key risk indicators (KRIs). Clients are likely to devote most of their attention to the most significant risks that arise from such prioritisation – the key risk indicators. Every client is free to decide which risks from steps 1 and 2 they wish to include and monitor in their dashboards, based on their own risk appetite. To monitor the KRIs, we have developed a dashboard for their management boards to monitor these risks on a quarterly basis. For an example of one of the KRIs on the dashboard, see the figure on the next page.

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Example dashboard for monitoring key risk indicator

Type of sustainability risk	Sustainability risk	Key risk indicator (KRI)	Metric	KRI risk assessment standard			KRI exposure	
				Low	Medium	High	Today	Previously
Financial	Climate – transition	Percentage exposure to coal	Percentage exposure of investments	< 2%	2-5%	> 5%	0.0%	n/a
	Climate – physical	Portfolio value at risk (VaR)	Millions of euro in % coverage ratio	< 2%	2-5%	> 5%	0.5% DG points	n/a
	Biodiversity loss	Under development	n/a	Under development			Under development	n/a
Non-financial: Reputation	Insufficiently committed to living wage in view of importance of labour theme	Number of engagements in critical sectors: garment and footwear (G&F), food and agriculture	Number of engagements	> 20	5-20	< 5	Number of engagements (2022): 52	n/a
	Involved with carbon-intensive sectors or major climate polluters	Number of investments in fossil fuel reserves	Number of investments	< 50	50-250	> 250	220, 191 after implementation of 2023 RI policy	n/a
Non-financial: Compliance	Non-compliance with sustainability laws and regulations	Engagement and/or regulator instructions	Number of engagements or instructions	0	1 – 2	> 3	No instructions	n/a
Non-financial: Operational	Inadequate ESG risk management cycle	No available indicators, qualitative	Assessment of cycle, IRM or RI policies	Annually	Once every three years	More than three years	Fully in 2023	n/a
Non-financial: Social	Not offering remedy/redress by direct exclusion	Number of engagements in critical sectors: garment and footwear (G&F), food and agriculture	Number of engagements	> 20	5-20	< 5	Number of engagements (2022): 52	n/a

For illustrative purposes only.