Energy transition – aiming for our reduction targets

In accordance with the Paris Agreement, we want to help limit climate change to +1.5°C compared with pre-industrial levels. For this reason, we aim to be a net-zero investor by 2050 by aligning our assets under management (AuM) with a long-term carbon intensity pathway of minus 7% a year on average, in terms of weighted average carbon intensity (WACI).[7] The WACI measures a portfolio's exposure to carbon-intensive issuers and serves as a proxy for a portfolio's exposure to climate transition risks.

To deliver on this aim, we have again directed a substantial part of our voting and engagement efforts towards climate-related issues. Our investment teams have engaged with the most carbon-intensive companies following the WACI metric, which account in aggregate for at least 50% of the carbon intensity of their respective portfolios.

WACI- engagement examples

An example of such an engagement is our dialogue with the German cement company Heidelberg Materials on the inclusion of CO_2e-reduction milestones in the long-term incentive plans (LTIP) for its management and personnel. This implies that the company's senior management should be accountable for whatever carbon reductions are accomplished.

The cement industry contributes approximately 7% of global industrial carbon emissions, with Scope 1 emissions accounting for the largest part of total emissions in the industry. Including reduction targets in the LTIP would ensure that the adopted milestones are taken seriously. No changes had been achieved by the end of 2023, but the company is working on a new remuneration system and has agreed to put this on the agenda of its annual general meeting in 2024.

Staying in the region, we approached the German aviation group Lufthansa in 2022, to discuss its decarbonisation plans, how to make progress towards its 2030 carbon reduction targets and verification of its targets by the Science Based Targets Initiative (SBTi). In May 2023 we saw Lufthansa take a tangible step towards decarbonisation, with its the reduction roadmap to 2030 being validated by the SBTi. The company has also introduced 'Rail & Fly' tickets within Germany.

For more details of our engagements with the top 50% of companies in emission terms (following the WACI metric), please see section 'Investment Strategies'.

[7] The target of -7% applies to our in-house Kempen funds and the 'Active' and 'Sustainable' proposition within the Private Bank - wealth management.

Quantifying the impact on the real estate sector

Another focal point of our work was the real estate sector, where we are building on the extensive expertise within our long-established investment team that manages successful investment strategies in both listed and non-listed real estate. Here, we have worked on quantifying the impact of climate change and the energy transition on real estate investment models.

Since this sector is responsible for nearly 40% of global carbon dioxide emissions, its ongoing transition towards net-zero brings both transition risks and opportunities.[8] This is driven by regulatory shifts, market changes, and evolving client demands.

With regulatory measures aimed at sustainability increasing worldwide, companies face a growing risk of being subjected to financial penalties for excessive carbon emissions. Conversely, companies that successfully make the transition to sustainable practices can enhance the value of their properties and ensure their long-term viability. Sustainability is also of growing importance for tenants, many of whom are willing to pay higher rents for sustainable housing, while owners can reduce operational costs by implementing measures such as installing solar panels.

The aim of our work is to further quantify the energy transition in the real estate investment process. We apply our environmental pathway framework to the (listed) real estate universe to capture the preparedness of companies for the energy transition. Moreover, we are examining how to include (existing and anticipated) carbon pricing as well.

[8] Listed Real Estate ESG Analysis 2023 (vanlanschotkempen.com) + World Energy Outlook 2021 – Analysis - IEA.

Food transition through the lens of biodiversity

2023 saw the important topic of food systems – what we eat, how food is produced and grown, and how it is shipped – finally becoming a focus of international sustainability discussions. COP28, held in Dubai in November 2023, opened with a declaration on sustainable agriculture, which was signed by over 130 countries, and a whole day was devoted to food and agriculture. In the final agreement document, sustainable agriculture was named as being part of the considerations and responses to the crises of climate change and biodiversity loss.

Van Lanschot Kempen acknowledges that society's current consumption pattern and rising living standards have resulted in a food production system that is depleting natural resources and polluting the environment. We are dedicated to playing a role in transforming the food production system into one that works better for the people and planet. We do this by enabling our clients to invest in new opportunities and helping them understand the impact and dependencies on nature and biodiversity in their portfolios.

Healthy food and biodiversity

We see the preservation and enhancement of biodiversity and soil health as vital elements to contribute to a cleaner environment and the production of more nutritious and healthy food.

The intensification of agriculture in recent decades has played a critical role in increasing biodiversity loss. We aim to limit and reverse this loss, primarily by advancing the food transition and by focusing on halting deforestation in accordance with our biodiversity policy.

In 2023, a biodiversity framework was put in place for the Kempen funds that stipulates the criteria for our investments, engagement, exclusion and impact.

Mountaintop, Brisbane area, NSW Australia

A living soil

Through our SDG Farmland Fund, we can contribute directly towards the food transition. The strategy invests in agricultural land with the aim to shift from a conventional to a regenerative farming system, also working towards solving the issues of healthy food production and biodiversity loss. This fund invests in agricultural land, with a focus on improving soil quality and “bringing life back into the soil”, leading to healthier soil and more nutritious crops. For more information on the farmland strategy, please see page 21.

Engagement on biodiversity

We also aim to contribute to the goal of preserving biodiversity by our actions as active owners. In 2023, we had several individual engagements on this topic with large food-producing corporations. For example, we encouraged Danone to increase its focus on plant-based protein products and the ability to recycle its packaging.

Another example is our engagement with TotalEnergies, in collaboration with other Dutch asset managers, on their East African Crude Oil Pipeline Project. This project is likely to significantly impact unique and fragile ecosystems in Uganda and Tanzania. In response, the company indicated that it is exploring options to limit this impact and develop biodiversity offsetting plans. We will continue to follow this project closely.

To stay stronger together, in 2023 we as Van Lanschot Kempen, joined the newly created collaborative engagement initiative Nature Action 100. The initiative engages companies in key sectors that are deemed to be systemically important in starting to reverse nature and biodiversity loss by 2030. We are now part of the engagement teams focusing on the companies Novo Nordisk and Sysco Corporation.

Mountaintop, Brisbane area, NSW Australia

Defining sustainable investments

European sustainability regulations play an important role in how we assess, integrate and report on sustainable investments. In 2023, as part of the European Sustainable Financial Disclosure Regulation ("SFDR")[9] and MiFID II regulations[10], we made further progress on updating our reporting and obtaining and processing data. We have established and enhanced our definition of sustainable investments and this now allows us to follow a rule-based and data-driven process to determine whether an individual investment can be regarded as a sustainable investment within the meaning of SFDR.

How do we determine if an investment passes the sustainability contribution test? Here we look at three criteria:

a) Firstly, we include the reported or estimated EU taxonomy alignment, thus gauging how far the company's activities are aligned with a net-zero trajectory by 2050 and the broader environmental goals.
b) Secondly, we consider the sustainable impact revenue contribution, thus establishing if the revenues from the company's products or services are targeting one or more environmental or social impact objectives.
c) And thirdly, we look at the contribution to one or more of the Sustainable Development Goal (SDG) themes. For this, we calculate the share of net sales generated by a company by products or services that have a contributing impact to the achievement of an SDG objective, minus the share that has an obstructing (negative) impact. We also map the sustainable impact revenue contribution and the SDG thematic contribution to our transition themes and sustainability themes.

Considering these criteria, we find that in a universe consisting of listed companies ranging from large caps to small caps in both developed and emerging countries, about 45% can be considered as sustainable investments. This calculation has led us to set higher targets for the percentage of committed sustainable investments for our own funds (see page 26 of this report).

Evidently, the regulatory agenda for sustainable finance continues to evolve. In 2023, we provided input to legislative consultations through our membership of DUFAS, Eumedion, and other organisations. We expect to see the supervisory authorities paying continued attention to sustainability and impact claims. More changes to the SFDR will unfold over the next several years, following ongoing consultations and the further development of the European Securities and Markets Authority (ESMA) roadmap.

How do we organise sustainability at Van Lanschot Kempen? Please find more information on our website.

[9] SFDR (Sustainable Finance Disclosure Regulation): SFDR was introduced by the European Union (EU), with the aim to promote sustainability and transparency in the financial sector. Please see the glossary for more information.

[10] MiFID II (Markets in Financial Instruments Directive II): a regulatory framework introduced by the EU to regulate financial markets and enhance investor protection. Please see glossary for more information.