

OECD Guidelines for Multinational Enterprises

How we comply



February 2020

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More information

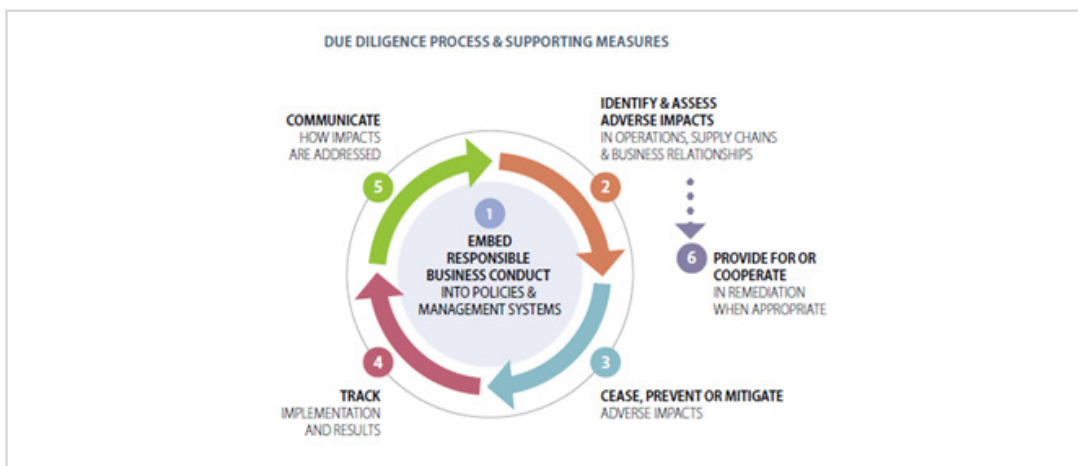
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1. Introduction

The Dutch government expects businesses to take account of the impact of their activities on people and the environment, worldwide. In practice, this means that companies are expected to be able to demonstrate that they observe the OECD Guidelines for Multinational Enterprises (OECD GL). This report explains how Van Lanschot Kempen - through various policies - complies with the OECD GL.

1.1. OECD Guidelines for Multinational Enterprises

The OECD GL are recommendations addressed by (OECD) governments to multinational enterprises operating in or from signatory countries. The Guidelines provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards. They require multinational companies to have (permanent) due diligence processes in place by which they can identify, prevent and mitigate real and potential negative impacts in their operations, their supply chains and other business relationships along the following themes: employment and industrial relations; human rights; environment; combating bribery and corruption; consumer interests; and disclosures. The chart below provides a generic overview of the required due diligence process and the additional measures needed to support it.



Source: OECD Due Diligence Guidance for Responsible Business Conduct, 2018, p. 72

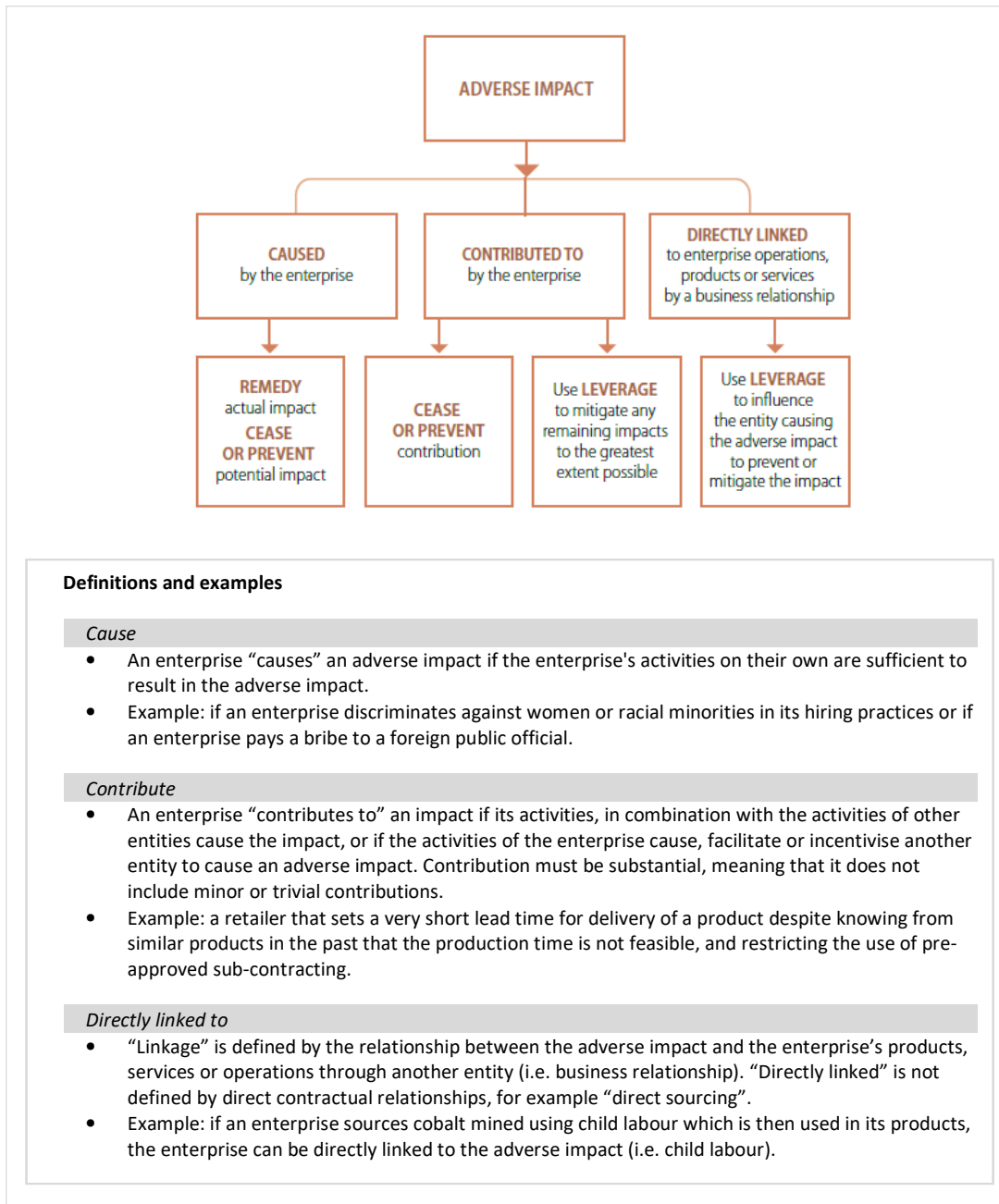
In summary, the OECD GL process consists of six steps:

1. Set up policies and management systems for responsible business conduct (RBC);
2. Apply RBC policies: identify, assess and classify adverse impacts;
3. Take action: cease, prevent or mitigate adverse impacts;
4. Monitor: track actions and results;
5. Communicate: disclose e.g. policies and management systems, due diligence results (most significant adverse risks) and mitigation measures that have been taken;
6. Provide for or cooperate in remediation (if relevant); also set up complaint procedures.

Although all six steps are relevant, steps two and three need additional clarification. In step two adverse impacts need to be classified into one of three categories (caused, contributed to, directly linked). Depending on the outcome of this classification, specific actions are required in step 3:

- If the multinational company itself is *causing* the adverse impact, it should end the impact and assure that remediation takes place.
- If the multinational company is *contributing to* the adverse impact it should end this contribution and use its leverage to mitigate any remaining adverse impacts.
- If a multinational is *directly linked to* an adverse impact via the operations, products or services of a business relationship, the multinational must seek to use its influence to encourage the other (causing or contributing) entity to prevent, mitigate and end the adverse impact and to provide remediation.

The graph below provides an overview of these three possible actions and some examples.



Source: OECD Due Diligence Guidance for Responsible Business Conduct, 2018, pp. 70-72

1.2. The structure of this report

This report aims to explain how Van Lanschot Kempen - through various policies - complies with the OECD GL.

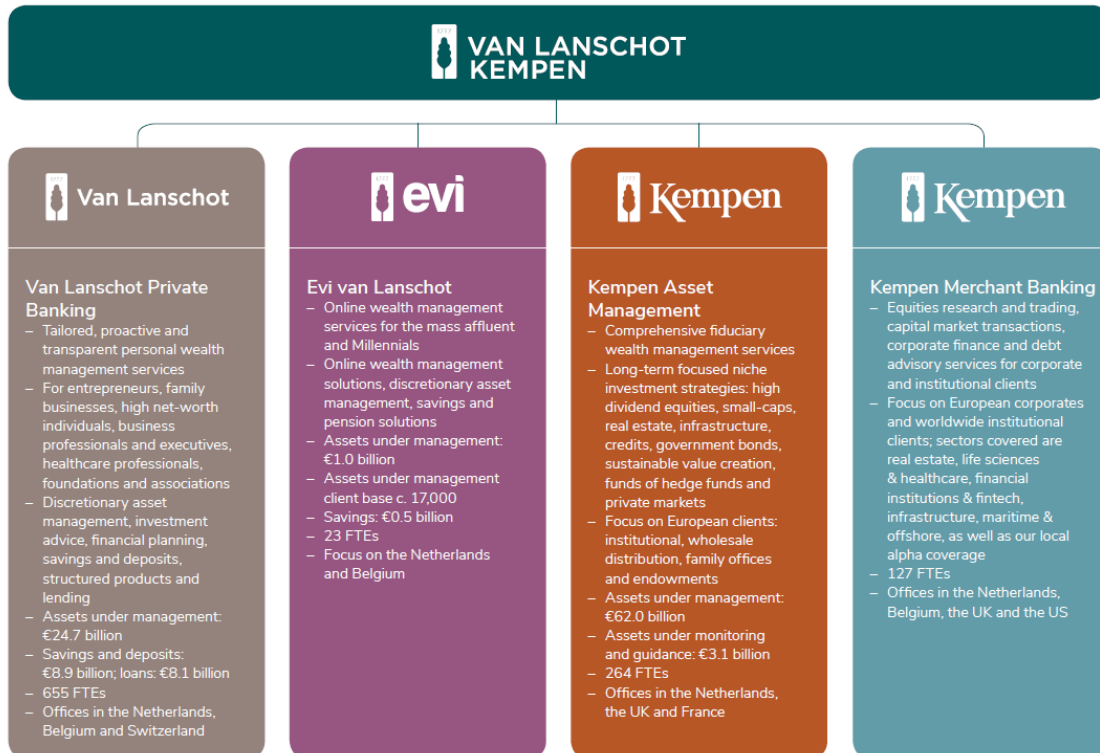
After giving an overview of our business and organisation (section 2) we present an assessment of our potential adverse impacts (section 3) and an overview of our policies to identify, prevent and mitigate these (section 4). In section 5 we then explain how these policies make us compliant with the OECD GL.

2. Who we are

To understand how - and to what extent - we currently comply with the OECD GL, it is first necessary to understand our organisation and business.

Our purpose

As a wealth manager we serve clients in several segments – private, institutional and corporate – with a single purpose: to be a trusted partner and to assist our clients in preserving and creating wealth, in a sustainable way. We believe that serving the long-term interests of our clients helps to create a platform for responsible investing and social stability. The graph below provides further details of our clients, our products and services and our regions of activity.



Source: Annual Report Van Lanschot Kempen 2019

Our business roles

As can be seen from the overview above, we fulfil five different business roles:

1. Investor (on behalf of clients as well as for our own account);
2. Lender (mortgages and corporate loans to selected groups of clients);
3. Service provider (to our clients, e.g. in Merchant Banking);
4. Employer (to our employees);
5. Purchaser (procurement for our own organisation).

Via these various business roles we aim to have a positive (value-creating) impact on our clients and the world around us. At the same time we realise that – even if we comply with all legal obligations – we could potentially find ourselves linked to practices that harm people or the planet. The next section explores our potential negative impact in relation to the various OECD themes.

3. Our potential negative impacts on OECD themes

Over the last years, we have - as part of our group-wide corporate social responsibility (CSR) strategy - consulted many internal and external parties to assess our potential negative impacts. The first part of the table below provides - for each of the OECD themes and our five business roles - an overview of potential negative impacts.

Our (potential) negative involvements with OECD themes						
		Our business roles				
OECD themes		Investor	Lender	Service provider	Employer	Purchaser
1. Employment		DI	DI	NR	Ca / Co / DI	DI
2. Human rights				Ca / Co / DI		
3. Environment				NR	NR	
4. Bribery				Ca / Co / DI		
5. Consumer interests						
VLK policies to manage our involvement	Details					
Responsible / sustainable invest. policy	§ 4.1.1	V				
CSR inv. policies for own investment book	§ 4.1.2	V				
CSR corporate lending policy	§ 4.2	V	V			
Client-related policies	§ 4.3			V		
Employee-related policies	§ 4.4				V	
Business partner due diligence policy	§ 4.5					V
Complaint procedures	§ 4.6	V	V	V	V	V

Ca: Cause; Co: Contribute; DI: Directly linked to; NR: Not relevant; V: Policy in place

The type of our potential negative involvement differs per business role and OECD theme:

- As **investor, lender, purchaser** or we do not expect to cause or contribute to any negative impacts in relation to the various OECD themes. However, via the activities and supply chains of our borrowers, suppliers or investees we could become *directly linked to* some negative impacts, especially when these supply chains are located in regions with relatively weak regulation and enforcement, e.g. in emerging economies (i.e. non-high-income OECD countries). These impacts will most likely relate to the OECD themes employment, human rights, environment, bribery, and - to a lesser extent - consumer interests.
- As a **service provider** we expect to run a certain risk of *causing or contributing* to negative impacts in the field of human rights and consumer interests, e.g. if we were to cause client data leakages ourselves, if we were to misuse client data or if we were to provide products and solutions that do not add value to our clients. In the event that our business partners create such impacts, we would be *directly linked to* these impacts. For the other OECD themes we do not expect negative impacts.
- As an **employer** we see a certain risk of *causing or contributing* to negative impacts in the field of employment and human rights, e.g. in the event of discrimination, sexual harassment or unhealthy working conditions. If one of our business partners (e.g. a temporary employment agency) were to do this, we would become *directly linked to* the impact. For other OECD themes we do not expect negative impacts.

As indicated in the lower part of the table, we have specific **policies** in place to identify, prevent and mitigate real and potential negative impacts. These policies, which are further explained in the sections below, follow various international frameworks, e.g. PRI, UN Global Compact, ILO Conventions, UN GP, and also the OECD GL. In line with OECD recommendations (OECD, 2018, page 42) our policies focus on the most 'significant' adverse impacts. Significance here is understood as a function of likelihood and severity. Severity of impacts will be judged by their **scale, scope** and **irremediable character**:

- Scale refers to the gravity of the adverse impact.
- Scope concerns the reach of the impact (e.g. the number of individuals that are or will be affected).
- Irremediable character means any limits on the ability to restore the individuals or environment affected to a situation equivalent to their situation before the adverse impact.

4. Our policies in relation to OECD themes

As indicated in the previous section we have various policies in place that aim to identify, prevent, mitigate and remedy potential and actual negative impacts related to OECD themes:

- Investment-related policies
 - Responsible / sustainable investment policy § 4.1.1
 - CSR investment policies for our own investment book § 4.1.2
- CSR corporate lending policy § 4.2
- Client-related policies § 4.3
- Various employee-related policies § 4.4
- Business partner due diligence policy § 4.5
- Complaints procedures § 4.6

All these policies go beyond existing laws and regulations and aim to prevent our becoming involved in unsustainable activities or business behaviour. The policies were signed off by senior management (in most cases by the Executive Board) and have been integrated in existing procedures and systems as far as possible.

Below we present our policies and describe how these policies address potential and actual negative impacts. For each policy we also provide examples from recent years and results.

4.1. Investment-related policies

Van Lanschot Kempen has two relevant responsible investment policies: one for client investments and one for our own investment book. Both policies are further described below.

4.1.1. Responsible investment policy for client investments

Within Van Lanschot Kempen, Kempen Asset Management is responsible for formulating and executing the responsible/sustainable investment policy (screening, exclusion, engagement and voting), also for Van Lanschot Private Banking and Evi. Based on this policy, Asset Management, Private Banking and Evi, invest on behalf of our clients in companies and mutual funds managed by Kempen Asset Management as well as external mutual funds (managed by other financial institutions). These funds can have an active or a passive management approach.

Our policy

Regardless of the ownership or type of fund, we (Kempen Asset Management) periodically screen investee companies and funds (managers) on sustainability, and through engagement we aim to create positive change.

- The screening is based on the UN Global Compact Framework¹, the Principles for Responsible Investments (PRI) and the OECD GL and comprises many sustainability themes and criteria. The frameworks have been translated into an extensive convention list containing international conventions, directives, regulations or standards.
- If the screening – for which we use data from external research providers (MSCI ESG Research as primary research provider and also Sustainalytics (mainly for our own funds and specific clients) – indicates that companies are involved in controversial weapons (nuclear, biological and chemical weapons, cluster munitions and anti-personnel landmines) or tobacco production, we will exclude them from our investments. If companies do not comply with UN Global Compact, we may initiate an engagement process.
- Based on our policy, we select the most severe cases for ‘engagement for change’. A case becomes more severe if it negatively impacts a larger group of people if it creates impact that can no longer be remediated and if it is the result of structurally weak company policies or systems.
- Engagements may be effected by Kempen Asset Management alone or (with a view to increasing leverage) in collaboration with other asset managers and asset owners. If the investee company or internal/external

¹ The UN Global Compact focuses on four themes: environment, labour conditions, anti-corruption and human rights. For human rights, the UN Global Compact states that businesses should support and respect the protection of internationally proclaimed human rights (principle 1) and make sure they are not complicit in human rights abuses (principle 2).

fund is not willing to improve, we can exclude them, meaning that we will no longer invest in those companies and funds and will no longer recommend them to our investment advisory clients.

- Last but not least, we challenge clients, sector peers and rating agencies to pursue responsible investment and other policies.

In addition to engagement, exercising voting rights is another essential element of responsible investment. We cast our vote at the general meetings of Dutch businesses and by proxy in the case of international companies. For further details, see our Proxy Voting Policy on [kempen.com/en/asset-management/responsible-investment](https://www.kempen.com/en/asset-management/responsible-investment).

Why our responsible investment policy for client investments complies with the OECD GL

Our responsible investment policy for client investments aims to identify potential and actual negative impacts for a large number of sustainability themes, including those covered by the OECD GL. On the basis of our investment process (which leads to only small stakes in companies), we assess the chances of causing or contributing to a negative human rights impact as low. This means that Van Lanschot Kempen would at most be directly linked to such a negative impact. In that case we would apply an engagement approach, fully in line with the OECD GL.

Some engagement examples

Living wages

In 2018, Kempen Asset Management became a member of the Platform Living Wage Financials (PLWF). It consists of 11 financial institutions that together manage €2.3 trillion in assets and aims to encourage, support, assess, and monitor investee companies with regard to their commitment to pay a living wage to the workers in their supply chains. The platform has developed a new assessment methodology and applied it to companies in various sectors. See www.livingwage.nl.

Asian textiles

Our dialogue with Abercrombie & Fitch, a company in our small-cap holdings, is focussing on its labour rights and supply chain practices. We are encouraging the company to sign the second phase of the Bangladesh Accord, and support more potentially life-saving remediation to factories in Bangladesh, as well as to increase the overall transparency of its sustainability actions. The company has already improved its sustainability disclosures via a new website.

Automotive

Volkswagen was involved in what is known as the 'Diesel scandal' (2015). By means of our dialogue with the company we concluded that it is making cultural and organisational changes. Since then VW has published an updated group compliance plan, including a detailed program to further improve compliance and integrity. We also saw a clear commitment to further improve transparency and discussed possible next steps for further improvements of its governance and sustainability profile.

Russian steel

After a series of methane explosions at a Russian coal mine owned by steel producer Severstal killed 36 people in February 2016, we asked the company to upgrade its gas analysis systems for naturally occurring methane. Through a series of calls we noted that Severstal had undertaken an internal investigation into the explosions and allocated compensation payments for the affected families. Severstal also strengthened its policies on health and safety and its commitment to sustainability.

More examples can be found at <https://www.kempen.com/en/asset-management/responsible-investment>

Results of the responsible investment policy for client investments

In 2019, we carried out a total of 264 engagements with companies and 25 with external fund managers.

- Of the 264 company engagements, we did 84 ourselves. Of these 84 engagements 23 related to employee, social and human rights issues (e.g. labour conditions and living wages in various sectors). Another 36 engagements related to environmental themes.
- The remainder (180) were carried out in collaboration with other parties (e.g. asset managers or asset owners). 148 of these cases were climate related engagements, done by Climate Action 100+, a group of more than 450 (institutional) investors with over \$39 trillion in assets. Kempen Asset Management is a member of Climate Action 100+. Another 32 engagement cases were done by the Platform Living Wage Financials (PLWF), an alliance of 13 financial institutions - with over €2.6 trillion in assets - that encourages

and monitors investee companies to address the non-payment of living wage in global supply chains. Kempen Asset Management is a member of PLWF.

Most of the companies and fund managers we have approached in recent years have shown a willingness to improve their policies or portfolios. Only a few were not prepared to do so, to which we responded by excluding them.

Voting

In 2019, we voted at 414 meetings or 92% of all votable meetings (2018: 461 meetings, 93%). For more information see our [voting records](#) on our website.

Final note: sustainable investments

In addition to our responsible investment policy - which is the basic policy for most of our managed client assets - we have also created a sustainable investment policy. The latter was used among other things to develop the new 'Duurzaam+' sustainable investment option, which was added to our discretionary asset management offering for our Private Banking clients in 2017. For clients who choose this approach we exclude the least sustainable companies ('laggards') and activities (weapons, alcohol, nuclear energy, fossil fuels, adult entertainment, factory farming, etc.) from the portfolio and, where possible, replace them with 'best-in-class' organisations

4.1.2. CSR investment policies for our own investment book

Our own Van Lanschot Kempen trading and investment portfolio (on our balance sheet) has a relatively low CSR risk profile. It is chiefly run for liquidity purposes and mainly comprises European government paper and fixed-income securities issued by European financial institutions. A small part of the portfolio consists of participating interests: direct minority holdings (in Dutch SMEs) as well as some interests in private equity funds and other holdings.

Although the CSR risk profile of this portfolio is low, we do test it periodically for CSR issues by applying three types of CSR policies:

- For our *investments in large corporates and government bonds* we apply the same criteria as in our responsible investment policy as used for asset management; for details, see section 4.1.1.
- For *participating interests* (mainly in small companies) we apply the CSR corporate lending policy as described hereafter in section 4.2.
- For *financial institutions* we have developed a separate sustainability policy, which is explained below.

CSR policy for financial institutions

Our CSR policy for financial institutions was developed in 2012, specifically for assessing the sustainability of financial institutions with which Van Lanschot Kempen has a banking relationship. This policy is intended to prevent client assets from finding their way – through interbank loans, for instance, or (proprietary) investments in securities issued by other banks – to financial institutions with weak or non-existent CSR policies. In March 2018, we refined our CSR policy for financial institutions. Our current policy is summarised below.

Policy

If Van Lanschot Kempen has a current or potential banking relationship with another financial institution, the latter is expected:

1. To have formulated a specific sustainability policy (ensuring that savings money of Van Lanschot Kempen clients is handled in a responsible way) and to be transparent regarding the application and results of this policy;
2. Not to be involved in structural violations of international environmental, social or governance guidelines or to have a low sustainability rating.

To assess the first element (sustainability policy), Van Lanschot Kempen periodically investigates how financial institutions have committed to the following nine international initiatives:

1. UN Global Compact (UNGC);
2. OECD Guidelines for Multinational Enterprises (OECD GL);
3. UNEP Finance Initiative (UNEPFI);
4. Equator Principles (EP);
5. Principles for Responsible Investment (PRI);
6. CSR investment policies and CSR lending policies for sensitive sectors, themes and/or regions;
7. Money laundering policies and policy against financing terrorism (FATF, Wolfsberg, etc.);
8. Eco-efficiency policies (reduction of the ecological footprint of the own organisation and/or clients);
9. Sustainability report in line with GRI (preferably 'comprehensive').

Van Lanschot Kempen expects financial institutions to have adopted/implemented at least 50% of the above initiatives (as far as relevant for the institution²), including transparent communication around the initiatives.

With regard to the second element (no structural violations), Van Lanschot Kempen periodically assesses - based on information from research provider MSCI ESG Research - whether a financial institution is involved in structural violations of international environmental, social or governance guidelines and whether it has low scores on sustainability. The relevant tests here will be UN Global Compact compliance (no 'breach' of UNGC allowed) and the ESG Rating (no CCC rating allowed). More precisely, institutions which

- have implemented fewer than 50% of the initiatives; or
- are in breach of the UN Global Compact; or
- have been assigned a CCC rating (both according to MSCI ESG research);

will be approached by Van Lanschot Kempen (engagement). If the institution is not willing to take steps to improve its current score, Van Lanschot Kempen will reconsider its position and may potentially divest. This will be decided on a case-by-case basis by the Executive Board.

Our CSR policy for financial institutions in relation to the OECD GL

Our CSR policy for financial institutions aims to identify potential and actual negative impacts. Based on our activities (we only provide minor credit lines to other financial institutions or invest relatively small amounts in securities issued by large financial institutions), we assess the chances of causing or contributing to a negative impact as low. At the most, Van Lanschot Kempen could be directly linked to such a negative impact. In that case we would apply an engagement approach, fully in line with the OECD GL.

Some examples

Ongoing dialogue with an Australian Bank

In 2018, we started a dialogue with an Australian Bank that – based on its public disclosures – appeared to have some CSR policies in place, but did not report in line with GRI and was not a signatory to the PRI or UNGC. We asked the bank to confirm our findings and advised that it sign up to the PRI and UNGC. The bank responded that it was already implementing parts of GRI and was considering PRI and UNGC membership. On the basis of its response we decided to wait another six months to monitor progress, if any. In 2019 the bank became a signatory to UNGC.

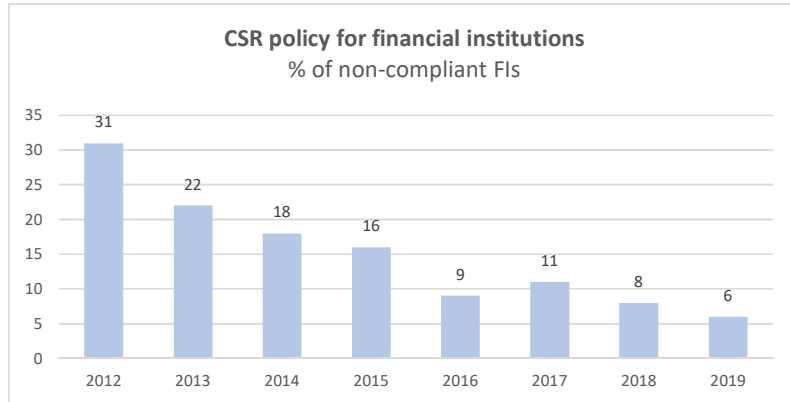
Divesting from a non-compliant Canadian financial institution

In the autumn of 2016, Van Lanschot Kempen approached a large Canadian bank that – based on information in the public domain – appeared not to be compliant with our policy. We first verified the information with the bank itself and explained our policy requirements. We also asked the bank to provide us with additional information for our comfort. As the answers we received were not satisfactory, we finally decided to divest.

² Not all initiatives are relevant for all institutions. For example, smaller banks not involved in project finance are not expected to have signed the Equator Principles. Similarly, regional savings/ mortgages banks that are not involved in any activities with a high ESG risk do not need to develop a responsible lending policy for sensitive sectors, themes or regions.

Results of our CSR investment policies for our own investment book

Since the start of the policies, all our participating interests and our investments in large companies and governments fully complied with our CSR policies. For our investments in securities issued by financial institutions the situation was slightly different, as not all of these titles fully complied from the start. Since the implementation of the policy in 2012, we have managed to gradually decrease the non-compliance percentage, from 31% in 2012 to 6% in 2019. Only a handful of investments have needed to be sold to achieve this result.



4.2. CSR corporate lending policy

As a responsible wealth manager, Van Lanschot Kempen acknowledges that – together with governments, companies, organisations and individuals – it has a responsibility when it comes to labour rights, human rights, environmental protection, anti-corruption (bribery) and consumer interests. In all its different business roles, Van Lanschot Kempen aims to respect these themes, always and everywhere. Accordingly, Van Lanschot Kempen also expects its corporate borrowers to respect these themes, in addition to respecting local laws.

Our corporate borrowers

Van Lanschot Kempen's corporate lending book is highly concentrated. It consists mainly of loans to business professionals in specific sectors (e.g. lawyers, accountants, health care professionals, etc.) and Dutch SMEs which on average have low involvement in labour or human rights issues, environmental issues or corruption cases. The number of borrowers active in manufacturing and/or with production facilities abroad is also small. Most borrowers have their businesses in the Netherlands and are therefore governed by Dutch laws and regulations. These laws are relatively stringent and well enforced.

Due diligence

In order to be able to identify, prevent, mitigate and remedy potential and actual negative labour, human rights, environmental, corruption or consumer impacts in relation to its corporate lending activities, Van Lanschot Kempen has established an ongoing due diligence process. This process focuses on borrowers (including their suppliers) with a (potential) high risk profile in these CSR fields. In practice, this means that we focus our additional due diligence particularly on borrowers in potentially high-risk sectors such as agriculture, garments, toys, furniture, other manufacturing, oil/gas and mining. A special risk filter is periodically completed for these borrowers; both before the first disbursement and during the loan period. The filter identifies a borrower as 'potentially high risk' if the borrower has production facilities in regions outside the Netherlands or the Western industrialised world³ or has its main suppliers in those regions. Van Lanschot Kempen has set up an engagement track for these borrowers.

³ The Western industrialised world is defined as 34 high-income OECD countries, based on data from the [OECD](#) and the [World Bank](#).

Engagement

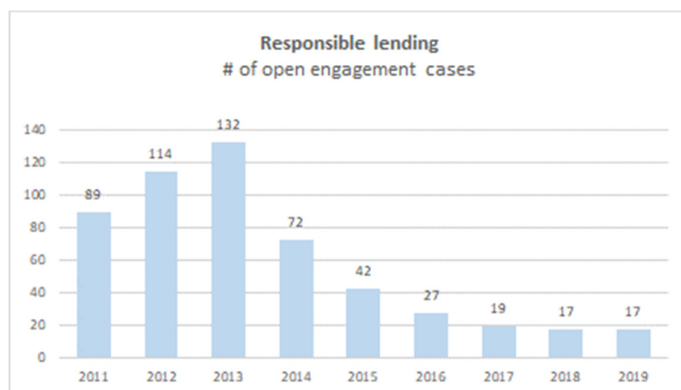
The engagement track for 'potentially high-risk' borrowers aims to create a better overview of their (potential) involvement in labour, human rights, environmental, corruption and consumer interests violations and the content and application of their policies in these fields. The next steps in the process follow the OECD GL, especially on *causing, contributing to and directly linked to*.

- If the risk filter indicates that a borrower is *causing or contributing to* labour, human rights, environmental, corruption or consumer interest violations, Van Lanschot Kempen is *directly linked to those violations*. As OECD GL prescribes, we will use our leverage to persuade the borrower to cease the violations and take remediation measures. In addition, we will challenge the borrower on their policies. We expect these policies to comply with the OECD GL and to provide a solid framework to identify, prevent and mitigate actual and potential violations. We will also make the borrower aware of the possibility of embracing various existing codes of conduct, certification possibilities and sustainable supply chain initiatives. If the borrower does not respond to our requests and/or does not improve, we will reconsider the relationship. Terminating the loan contract (as soon as legally possible) is then a potential next step.
- If the 'potentially high-risk' borrower is not involved in violations, but does lack a clear policy, Van Lanschot Kempen will use its leverage to ensure that such a policy (in line with OECD GL) is developed.

Large and smaller borrowers

In practice the (policy) requirements which Van Lanschot Kempen imposes on borrowers may depend on the size of the company and are applied on a case-by-case basis; we expect larger companies to have more policies and systems in place than smaller companies.

- **Large, international borrowers** should preferably have policies that are in line with OECD GL. They can indicate how they have translated their policies into responsibilities, (risk) management systems and procedures, including *grievance mechanisms* (for reporting complaints) and *remedy mechanisms* (for compensating for harm or damage caused). In addition these borrowers can indicate how they report on their policies, the implementation and results.
- In most cases, **smaller (family-owned) businesses** will not have the above policies, implementation mechanisms and/or reports in place. This does not mean that these borrowers do not seek to identify, prevent and mitigate their involvement in violations: it is likely that they have implemented precautionary measures but that these have not been accounted for in policies and/or reports. In such cases, Van Lanschot Kempen will request the borrower to provide additional information, indicating its efforts to identify, prevent and mitigate its (potential and actual) involvement in violations. *Grievance and remedy mechanisms* will also be taken into account here, especially where borrowers are causing or contributing to negative impacts.



Results of our responsible corporate lending policy

Since 2011, Van Lanschot Kempen has used its risk filter to screen all existing and new SME loans. In the initial years, the number of companies with a 'potential high risk' filter outcome grew; however, the number fell after we began our dialogues and asked for additional information. This reduction accelerated after we began running off our corporate loan portfolio in 2013. Over the last nine years, all the borrowers with whom we have engaged

have responded, and so far we have had no divestment because of non-compliance with our policy. Currently we only have 17 ongoing (open) engagement cases remaining. Most of these are simply triggered by the sector or region in which the borrower is active (e.g. importing various manufactured products from Asian countries).

Over half of the 17 cases concern human rights/labour rights-related risks. In all of them, we have engaged with the borrower on the precise risks in their supply chain and how the borrower might set about mitigating them. Other cases relate to environmental and weapon related themes. Many borrowers appreciated our engagement and have responded by taking the necessary measures. There is a small group for which further improvement is still possible, and we will continue to monitor these borrowers particularly actively.

Examples

The text box below provides some real-life examples of potential negative impact lending cases.

Wood trading regulation breach

During the annual update of the risk filter for a corporate client, we found that the client had received a warning from a regulator a few years earlier. This information was new to us. It concerned a Dutch wood trade company that imports from Eastern Europe, South America and Asia. As far as we knew, the company had an acceptable sustainability policy, aimed at preventing importing “bad wood”, and it complied with all legal requirements. Further investigation fortunately revealed that it was a relatively light warning due to not completely satisfying some due diligence processes, and was not related to actual import of illegal wood. Despite the reassuring finding, our banker was advised to discuss the case with the client with the aim of helping the client to comply with laws and regulations, and of preventing other warnings (as well as to ensure the right to a fair hearing).

Cadmium pollution

While updating a risk filter for a Dutch trading company (our client) it appeared that this company was importing batteries from Asia. Because the production of batteries can have substantial negative environmental and social impacts, our responsible corporate lending policy required an additional assessment of our client and its supply chain. Our assessment revealed that our client was sourcing all its batteries from one Hong Kong-based production company and that the latter held various international social and environmental certificates (e.g. ISO 14001 and SA 8000). In addition, we found that the Hong Kong company only produced the more environmentally friendly rechargeable NiMH batteries, had an internal environmental committee in place and had already received a number of awards. However, we also learned that the Hong Kong company had been involved in a serious negative incident back in 2004, when a number of employees fell ill because of cadmium pollution. It appeared that the company had responded correctly: it provided compensation to sick workers (exceeding the minimum local/Chinese compensation requirements), ceased production of nickel cadmium batteries, and strengthened its environmental health and safety facilities and training. The battery company has not been involved in any further incidents of this sort since 2004. On the basis of our findings, we ultimately issued a positive internal recommendation and continued the relationship with our client.

Note on Merchant Banking

We also apply CSR policies within Merchant Banking. In practice we use the same risk filter as for lending to assess clients (upfront) for potential CSR risks. We will not serve Merchant Banking clients in capital market transactions or with M&A advice if they do not meet our CSR requirements.

4.3 Client-related policies

In general, prospects and clients expect to be treated well by businesses and other organisations, regardless of the topic. For example, they expect businesses to provide correct product information (that is understandable and not misleading) and to apply fair pricing (in line with the real costs incurred). To manage such client-related topics, Van Lanschot Kempen has implemented various policies. Below, we provide an overview of our *client privacy policy* and our *product approval policies*. Referring to the OECD GL these policies address various issues in the field of ‘human rights’ and ‘consumer interests’.

Our client privacy policy

When it comes to banking, clients expect their privacy to be guaranteed and their data to be safe with us. They expect us not to use their personal details for purposes other than those for which they provided them. And they

expect us to set up solid systems to prevent data attacks, for example through cybercrime. If our systems and policies are not up to standard, we run the risk of *causing or contributing to* a negative client privacy impact ourselves. In addition, we could also be *linked to* such an impact. In relation to clients and human rights we have assessed a breach of client privacy as one of the possible most negative impacts.

Van Lanschot Kempen is subject to the Dutch Personal Data Protection Act (*Wet Bescherming Persoonsgegevens* - WBP), and endorses the Code of Conduct for processing personal data by financial institutions, which goes a step further than the WBP and takes into account the specific features of the financial sector. Van Lanschot Kempen has also implemented the General Data Protection Regulation (GDPR) requirements in its own policies on processing personal data and the specific processes and procedures.

To assure compliance with the applicable laws and regulations, Van Lanschot Kempen has created an extensive framework for managing personal data and appointed a specific privacy compliance officer. We also devote regular attention to building and increasing employee awareness on this issue, including through training and e-learning. In addition, all employees have signed a vow of secrecy and are required to comply with our Code of Conduct. The latter states among other things that employees must respect Chinese walls and clear desk policies and that they are only permitted to share (client) data on a 'need to know' basis.

Reporting on this topic within Van Lanschot Kempen is included in compliance reports and is reviewed in internal committees.

Results of our client privacy policy

We have to date not identified any salient case where we were *causing or contributing to* violations of client privacy rules. We are also not aware of any salient *linked to* case.

Our product approval policies

To provide our clients with maximum added value, we must only offer financial products and services that they really need and that contribute to their wealth. Products that do not meet these requirements are unacceptable.

To assure added value for our clients, we apply an approval process for new products and services, the new product approval (NPA) procedure, and have put in place a product review procedure for existing products (PR). A new product will not be launched if the NPA procedure finds it does not meet the criteria. Existing products are discontinued if they no longer comply. These decisions are the responsibility of our Product Boards, in which also members of the Executive Board hold positions. And it is not just the product itself that is important; our people who provide advice also have a key part to play. They need to have the appropriate knowledge, expertise and integrity to always put their clients' interests first. In line with our general Code of Conduct, this also implies that employees have to look beyond what clients want: if a product does not sit well with a client's objectives and risk appetite, it is up to our employees to point this out clearly even if the client disagrees. Putting clients centre stage also means that we should prevent conflicts of interest, to which end Compliance has designed our policies to prevent such conflicts. These policies comprise a range of organisational measures and rules on conduct, and aim to ensure that Van Lanschot Kempen's interests and those of our clients do not get mixed up.

All our policies are reviewed periodically. Depending on the type of policy, reviews are carried out by the Product Board, the Executive Board, the Compliance and Risk Committee or other committees created for this purpose. Group Audit also has a part to play: the Dutch Banking Code requires Van Lanschot Kempen to perform an annual audit of the effectiveness of our NPA and PR procedures. The results of the review will be incorporated in the management approach if applicable. Effectiveness implies careful consideration of the risks and careful tests of other product aspects, such as our duty of care towards clients.

Results of our product approval policies

Over the last few years, the application of our policies has not identified any salient case in relation to 'consumer interests'.

4.4. Employee-related policies

Van Lanschot Kempen employs 1,560 full-time equivalents (FTEs), including via employment agencies and outsourcing contracts. Most of our employees are based in the Netherlands (90%) and Belgium (8%); a fairly small group of employees work in the United Kingdom, Switzerland, the United States and France. Although all these countries have relatively strict local labour laws and enforcement regimes, there is still a risk that Van Lanschot Kempen could become involved in negative impacts.

We have identified three potential negative impacts relating to the OECD themes ‘employment’ and ‘human rights’:

- Discrimination against employees (during recruitment or in the workplace);
- Sexual harassment in the workplace;
- Unhealthy working conditions (work/life balance).

We expect that – if one or more of the above negative impacts should materialise – in most cases we will be *causing* the impact or *contributing* to it. There is also a possibility that we could become *linked to* the impact, for example if a temporary employment agency we work with should discriminate against applicants because of their nationality or sexual preference.

Our employee-related policies

Van Lanschot Kempen has developed various policies and systems to identify, prevent, mitigate and remedy potential and actual negative impacts in relation to employees.

Another important tool is our extensive Code of Conduct for all employees. The code states among other things that employees should always comply with the law and show respect for clients and colleagues. It also explicitly states that every type of *discrimination* is prohibited. Employees who violate the code can be sanctioned, for example through the complaints procedure.

Van Lanschot Kempen also has in place a *sexual harassment* policy which aims to prevent such cases from occurring and – if they do nevertheless occur – to ensure that appropriate actions are taken. All employees (including interns and temporary workers) can take a case to one of the four confidential counsellors. The counsellor will provide initial (emotional) support and accompany the employee through the rest of the process. Together with the employee, the counsellor will investigate and advise on potential next steps, e.g. informal solutions or filing an official complaint with the complaints body, etc. If an official complaint is filed, the Executive Board will ultimately take a decision. The Executive Board can issue an official warning, but can also suspend offenders, relocate them to another department or office or terminate their employment contract.

Individual employees who wish to report *personal labour-related issues* (labour and working conditions, bullying, violence and aggression, discrimination, etc.) can use the complaints procedure. The complaints body consists of four employees. Two of them are appointed by the Executive Board and two by the Works Council. Employees can approach the complaints body via their manager, their Human Resources manager, a specialist complaints manager or one of the four confidential counsellors. The complaints body will investigate the complaint and formulate a recommendation. Based on that recommendation, the Executive Board will take a final decision.

Results of our employee-related policies

Where people work together, frictions can always arise, and our confidential counsellors are accordingly contacted a few times each year. Most of the cases brought to them are resolved through internal mediation. The Human Resources department or Executive Board have been involved in only a small number of cases. To date we have not seen any salient cases.

4.5. Business partner due diligence policy

Since 2009, all purchasing processes above €10,000 in which the group-wide Purchasing, Contract Management & Facilities Service Centre is involved, have been subject to specific CSR monitoring. In 2015 we incorporated our responsible purchasing policy within a broader framework, the business partner due diligence (BPDD) policy, which applies to all our divisions. The BPDD policy ensures that we only work with business partners which meet our integrity and CSR standards. It is used to analyse and manage risks prior to and during collaboration. A supplier's statement enables us to identify the stability, country, industry, integrity, reputation and other risks associated with a business partner. We do not enter into relationships with business partners that fail to satisfy the BPDD policy.

In 2017, we have embarked on the further development of the parameters and criteria on the basis of which suppliers are assessed. For reasons of consistency, we have been using (parts of) the risk filter of our CSR lending policy for this purpose. This approach has created a more detailed picture, especially of potentially negative issues in the supply chain of our suppliers. In 2018, we set up a supplier portal to automate parts of our BPDD process, and in 2019 this was implemented for most suppliers. In addition to this we also extended our procurement training for Van Lanschot Kempen employees. The internal "Procurement 4 non Procurement" training, which is aimed especially at employees who are regularly involved in procurement, was extended with an additional e-learning training module.

If one of our business partners were to become involved in negative impacts (e.g. environment, labour, human rights, corruption/bribery, taxation or consumer interests) we would expect to become *directly linked to* such an impact. This would most likely be an issue in the supply chain of our suppliers. In that case we would use our leverage to improve the situation. If the supplier showed no willingness to improve the situation, we would consider ending the contract.

Results of our business partner due diligence policy

Based on our BPDD approach, we have to date not identified any supplier that was *causing* negative impacts, *contributing to* such impacts or *directly linked to* them. As a result, we have not yet used any of our leverage instruments.

4.6. Complaints procedures

As Van Lanschot Kempen is of the opinion that all its stakeholders (clients, shareholders, employees, society at large) should be able to report irregularities, it has installed various complaints procedures.

Whistleblower procedure for employees

To ensure that employees can always report (presumed) general, operational or financial irregularities, even if they experience (internal) barriers to doing so, Van Lanschot Kempen has a whistleblower procedure in place. The procedure can be found under 'Reporting irregularities' at www.vanlanschotkempen.com/en/governance. Examples of potential irregularities include theft, violations of laws and regulations, material and intended violations of internal rules, violations of a pledge of secrecy, irregularities in financial reports, etc. The whistleblower procedure is not intended for issues concerning labour, labour conditions, sexual harassment, violence, bullying, aggression, violence and discrimination. For those topics, employees can contact our Human Resources department or the confidential counsellor.

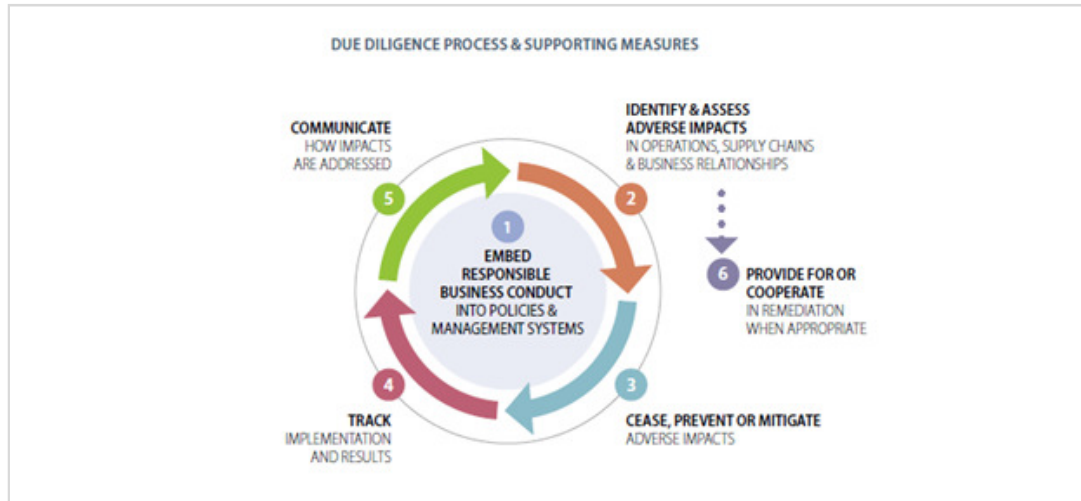
Complaints procedure for third parties

If third parties, e.g. suppliers, intermediaries or NGOs, wish to lodge a complaint they can contact our Compliance Director via our corporate website (see under 'Reporting irregularities'). If clients wish to lodge a complaint concerning general, operational or financial irregularities, they can use the complaints procedure (also published on our corporate website).

5. How we comply with the OECD Guidelines

This last section provides a brief summary of our compliance with the OECD GL.

As described in section 1, the OECD GL require multinational companies to have (permanent) due diligence processes in place by which they can identify, prevent and mitigate real and potential negative impacts within a number of sustainability themes (human rights, environment, consumer interest, etc). These due diligence processes need to cover six steps.



Source: OECD Due Diligence Guidelines for Responsible Business Conduct, 2018, p. 72

In section 4 of this report we have described the various due diligence processes (policies) by which we manage adverse impacts relating to OECD (and other) sustainability themes. By way of a summary, the table below combines the six OECD steps from section 1 with our due diligence processes from section 4. The table shows - for every individual policy (due diligence process) - where we have published the most relevant documentation (policy text, due diligence results, actions taken, results, etc).

OECD requirements (6 steps)	VLK policies for OECD themes	Resp./sust. investment policy	CSR policy financial institutions	CSR corp. lending policy	Various client policies	Various employee policies	Business partner DD policy
1. Policy & management system							
• Set up, integrate & publish		AR, KW, CW	AR, CW	AR, CW	AR, TR	AR, TR	AR, TR
• Training		Yes	No need	Yes	Yes	Yes	Yes
2. Application of the policy							
• Identify adverse impacts		KW, KAR, CW	AR	AR	AR	AR	AR
• Categorise		TR	TR	TR	TR	TR	TR
• Prioritise adverse impacts		KW, KAR, AR	No need	No need	No need	No need	No need
3. Take action on impacts		KW, KAR, AR	AR	AR	AR, TR	TR	AR
4. Track implementation & results		KW, KAR, AR	AR	AR	AR	TR	AR
5. Communicate results							
• Due diligence results		KW, KAR, AR	AR	AR	AR	TR	AR
• Mitigation measures taken		KW, KAR, AR	AR	AR	AR	TR	AR
6. Remediation							
• Provide for / cooperate in		Yes	No need	No need	Yes	Yes	No need
• Complaints procedures							TR

CW: Corporate website Van Lanschot Kempen KW: Kempen website AR: Annual report VLK TR: This report KAR: Kempen annual responsible investment report

Conclusion

Based on our policies as described in sections 1 to 4 and the above summary, we conclude that we comply with the recommendations of the OECD GL.