VAN LANSCHOT KEMPEN

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

27 February 2020

Recommendations

The Task Force on Climate-related Financial Disclosures (TCFD) has developed a number of recommendations on climate-related financial disclosures, applicable to organisations across sectors and jurisdictions (see fsb-tcfd.org). Given its aim to promote more informed investing, lending and insurance underwriting decisions, TCFD advises that all financial and non-financial organisations with public debt or equity implement its recommendations. TCFD also suggests that asset managers and asset owners implement its recommendations. To ensure that appropriate controls govern the production and disclosure of the required information, TCFD advises that the recommended disclosures should be included in mainstream (i.e. public) financial filings. The recommendations of TCFD are structured around four thematic areas that represent core elements of how organisations operate: A. Governance, B. Strategy, C. Risk management and D. Metrics and targets.

Governance	Strategy	Risk management	Metrics and targets
Disclose the organisation's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	Disclose how the organisation identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended disclosures a) Describe the board's oversight of climate-related risks and opportunities. b) Describe management's role in assessing and managing climate-related risks and opportunities.	**Recommended disclosures** a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	**Recommended disclosures** a) Describe the organisation's processes for identifying and assessing climate-related risks. b) Describe the organisation's processes for managing climate-related risks. c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	**Recommended disclosures** a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. b) Disclose scope 1, scope 2, and, if appropriate, scope 3 greenhouse gas (GHG) emissions, and the related risks. c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

The table on the next page describes how Van Lanschot Kempen has implemented the recommendations.

Recommendations and supporting recommended disclosures

Item	On-balance sheet activities	Off-balance sheet activities
A. Governance		
a. Board's oversight of climate-related risks and opportunities	Within Van Lanschot Kempen climate-related risks and opportunities are reported to the Executive Board if these are assessed as material. As no material risks have been identified, the Board has only infrequently discussed climate-related risk topics. Climate-related opportunities are discussed as any other opportunity. Within Van Lanschot Kempen, a new product approval (NPA) process is designed to assess new opportunities.	
b. Management's role in assessing and managing climate-related risks and opportunities	Van Lanschot Kempen's group risk management and control system is specifically designed to manage all internal and external risks. Climate change falls into the category of external risks and managing it involves three lines of defence (for more information on the three lines of defence method, please refer to the annual report 2019 p. 60, p. 94 and p. 122). A group-wide risk dashboard is sent to the Group Risk Committee every quarter. The Group Risk Committee consists of all Executive Board members and the Director of Group Risk Management. If climate change is deemed to be a material risk for Van Lanschot Kempen, it will be discussed in this committee.	For the assets under management (AuM), the ESG Council is the highest governance body regarding environmental, social and governance (ESG) risks and opportunities. This Council is chaired by the Managing Director of Kempen Capital Management and consists of various senior investment specialists of Kempen Capital Management (KCM), e.g. the Chief Investment Officer and the Director Impact & Responsible Investment. The ESG Council formulated a specific climate change policy in 2016. The execution of the climate change policy is delegated to the Responsible Investment Team, together with the fund managers of KCM.
B. Strategy		
a1. Our identified short, medium and long-term climate-related risks	Given our balance sheet exposure we have not identified material climate-related risks (physical or transition) over the short (2 years), medium (3-7 years) and long term (> 7 years). Our balance sheet (€14.3bn) does not contain material climate-sensitive assets. – The investments in our own investment portfolio (€4.4bn; including cash) are mainly concentrated in government bonds and fixed income instruments issued by European financial institutions; see our annual report 2019, pp. 40 and 64. According to various studies these types of investments are not climate-sensitive. – In our corporate loan book (€1.4bn) there is no material lending exposure to companies active in climate-sensitive sectors such as fossil fuels, food & agri, transport, tourism, etc. The wind down of our Corporate Bank (due to strategic reasons; since 2013) has reduced our already limited climate change risk exposure to a non-material level in 2019. Most of our actual corporate loans are now with business professionals & executives, health care professionals and (a limited number of) Dutch SMEs. See the appendix to our Pillar III disclosure 2019 p. 3 for a detailed description of our loan book. – Our mortgages portfolio (€6.4bn) mainly consists of Dutch mortgages; see annual report 2019 p. 61 and 62. Climate-related risks (e.g. regulatory changes, flooding, etc.) are carried by the house owner or are covered by insurances on the house. Only if a large part of the Netherlands were to be flooded would there be risks in the mortgage portfolio. As far as flooding risks from the sea are concerned, such risks are currently deemed non-material. Calculations made by the Dutch Government underscore these low risks; see e.g. *De veiligheid van Nederland in kaart, 2016* page 30. The risks of flooding originating from rivers is much higher, but the government has initiated a wide range of investment programmes such as *Ruimte voor de rivier, Maaswerken en Hoogwater-beschermingswerken* to mitigate the risk of flooding (see rijkswaterstaat.nl/water/waterbeheer/bescherming-tegen-het-water/maatregelen-om-overstromingen-te-voorkomen/index.aspx).	We manage €87.7bn of assets under management. As these assets are partly invested in climate-sensitive sectors and regions, we run certain climate change risks. Examples of possible risks are investments in oil companies whose share price could deteriorate if these companies' assets were to become stranded due to policy effects. Another example is an investment in non-listed/illiquid real estate that gets flooded. As we expect most negative impacts to appear in oil & gas, mining, utilities and industrials, we have incorporated these sectors in our climate change policy. We will update this policy in 2020. We think it is important to emphasise that – even if the above-mentioned sectoral/regional risks materialise – the impact on the total client portfolio would be relatively limited, mainly because of the strong diversification over companies, sectors and regions, as well as the high liquidity of the investments we make for our clients. However, we expect this climate risk to increase due to more climate-related policies and regulation by governments and regulators (transition risks) and increasing physical risk. In addition we think it is important to state that the diversification at overall client portfolio level is not a reason to ignore company-specific risks of particular investments and portfolios. For more information, see the Risk management part of this document.

	– For our own offices (in the Netherlands, Belgium, Switzerland, the UK, France and the US) the main climate change risk is flooding. This risk is included in our business continuity stress testing as one of several scenarios that could lead to a prolonged disruption to the usage of facilities. Other scenarios taken into account are e.g. fire, epidemics and terrorist attacks. Based on these various scenarios we have assessed the related operational risk as relatively low and manageable. Existing business continuity measures are deemed sufficient in view of the low risk of such prolonged continuity disruptions. Our Merchant Bank activities (Corporate Finance and Securities) are mostly fee-driven and "asset-light". Therefore, these activities are not materially exposed to climate change risks such as stranded assets.	
a2. Our identified short, medium and long-term climate-related opportunities	Although we have seen a strong increase in interesting projects and initiatives, climate-related investable opportunities (fitting with our strategy, business and size) have been relatively small so far. However, we see growing client appetite for climate change-friendly investment funds and mortgage loan clients are becoming more interested in energy saving advice from their bank. Clients are increasingly looking to invest in portfolios in which climate change is an important theme. We expect that national and international (regulatory) developments, such as the Dutch Climate Agreement and the Sustainable Action Plan on Sustainable Finance will significantly increase such client demand. We encourage and will facilitate this positive development.	
b. The impact of climate-related risks and opportunities on our businesses, strategy, and financial planning	Until now we have classified our climate-related risks as low. These risks have not affected our business, our strategy or our financial planning. At the same time we see our climate-related opportunities increasing in line with the growing appetite among our clients. In response to this growing appetite, in early 2019, in early 2019 we launched a new green mortgage product aimed to facilitate more sustainable renovations of existing houses.	Although we see that climate-related risks are increasing, until now they have not affected our business, strategy or financial planning. The same goes for our climate-related opportunities, although we have recognised growing appetite among our clients recently and expect this to increase in future. For example we have provided our clients with new climate change friendly (externally managed) mutual funds and inflow to these funds has increased significantly. In 2019, Merchant Banking also added a new segment to its infrastructure niche: renewables. The focus of this segment will be on infrastructure to generate, move and store energy from wind and sun. Kempen aims to make the market more transparent, by providing insight into the sector dynamics and applying a structure that compares companies. This insight will increasingly enable investors to make responsible capital injections into the renewable energy market.
c. The resilience of our strategy under different climate-related scenarios, including a 2°C or lower scenario	So far we assess that the potential impact of a 2°C or lower scenario on our group is small: – We have no material climate-sensitive assets on our balance sheet. – We expect that rising sea levels will be countered by extra investments by the Dutch government in sea/river defence structures. Even if our operations were physically impacted due to flooding, we would be able to manage the situation as our data centres in Eindhoven and 's-Hertogenbosch (fallback) are well above sea-level.	In 2018, we started to perform scenario analyses using the 2ii PRI tool. We have applied the sustainable development scenario to our two most energy-intensive funds (one equity fund and one bond fund). This scenario provides an analysis of the portfolio relative to an economic transition (consistent with limiting global warming to 2°C above pre-industrial levels) as well as a comparison to peers. The scenario focuses on transition risks in the fossil fuel, power, and automotive sectors.

		We found that not all assumptions in the scenario analysis were easily applicable and in some cases it was difficult to draw definitive conclusions. In 2019, we therefore used climate scenarios – IEA scenarios including a 2°C scenario – from our climate data provider for one of our internal portfolios to assess its climate resilience compared with the benchmark. We also obtained climate risk indicators (proxies) from our climate data provider for several internal funds and some large clients. We see this information as a further step in understanding climate risks in the portfolios, and we also recognise that we need better data to come to useful insights in our portfolios. What we already see is that, depending on the investment strategy, some internal portfolios will have more transition risks (value oriented) and others will have more physical risks (real assets) or opportunities (growth-oriented). Sectors where transition risks are most relevant are on both the demand (utilities, transport) and supply (energy) side. In 2020, we will strive to collect more climate data to help obtain more insights and further integrate our climate risks and opportunities into our investment and risk management processes.
C. Risk management		
a. Our organisation's processes for identifying and assessing climate-related risk	All relevant (material) risks are considered in our regular risk management processes as described under A (Governance, section b). The group-wide risk dashboard that is sent to the Risk Committee every quarter recognises the following risks: strategic risk, credit risk, market risk, liquidity risk, interest rate risk, operational risk, and information risk; for more information, please refer to our annual report 2019 pp. 60-66. Climate change risk has been identified as an external factor which can influence any of the above risk categories and is therefore not a separate risk category. There is also no specific climate-related responsibility assigned to (risk) management-level. At tactical, process and project level, we execute risk and control self-assessments (RSCAs) on a regular basis. In these RSCAs staff determine which risks may interfere with the successful execution of processes. If deemed relevant, climate change impact will be considered. However, until now this has not been the case. In addition, climate change may be part of scenario analyses and business continuity assessments.	For our AuM, the ESG Council has developed a specific climate change policy which aims to measure the carbon intensity of all investments in the most carbon-intensive sectors (oil & gas, mining, utilities industries). We use an external data provider for the carbon data.

b. Our processes for managing climate-related risks	Within Van Lanschot Kempen, the process for prioritising climate-related risks in relation to our on-balance sheet activities is fully integrated in our overall risk management process. So far these climate-related risks appear to be rather small. Therefore, mitigation or transferring of these risks does not seem necessary.	For our AuM the process for prioritising climate-related risks is part of our Responsible Investment Policy, as approved by the ESG Council. To manage these risks we screen our portfolios and engage with companies. Companies in which we invest that lag on transparency or clear carbon reduction targets compared with their peers can be selected for an engagement process. The rationale behind these engagements is that we expect that, due to the energy transition, lagging companies in these sectors run the most material physical and transitional risks (e.g. because their assets may become stranded). Furthermore, we have a separate engagement policy with regard to coal. For the mining and utilities sectors we screen companies on their coal exposure. Mining companies that derive more than 10% of their revenues from coal, as well as utilities that use more than 30% coal in their fuel mix or derive more than 30% of their revenues from coal-fueled power, can be engaged with. If these companies – over the next few years – show no interest in reducing their coal exposure, we will consider excluding them from our investments. We can engage on our own (via our own funds) and also together with other investors. Joint engagements are for example done via our active membership of the IIGCC (Institutional Investor Group on Climate Change) and the Principles for Responsible Investment. Kempen is also part of an international engagement initiative called Climate Action 100+ that was launched in December 2017 and targets over 150 carbon intensive companies. For more engagement examples see kempen.com/en/asset-management/responsible-investment. Furthermore, for our Kempen Sustainable Fund range we exclude the following companies on climate-related factors: 1. companies that derive a significant portion of their revenues (>10%) from the production of coal; 2. companies that have substantial coal reserves; 3. utility companies with a carbon intensity that is not in line with a below 2 degrees scenario; 4. oil & gas companies involved in unconventional oil & gas exploration and production.
c. How our processes for identifying, assessing, and managing climate-related risks are integrated into our overall risk management	See a. and b.	See a. and b.
D. Metrics and targets		
a. Our metrics used to assess climate-related risks and opportunities	Given our business activities our key metric used to measure and manage (potential) climate-related risks is carbon emissions. Other metrics, e.g. associated with water, energy, land use and waste management, do not seem relevant. Because our climate-related risks are classified as non-material – especially in relation to our balance sheet – we do not see a need to use internal carbon prices or climate-related opportunity metrics. To assess the impact of (physical and transition) climate-related risks on our lending business activities in the short, medium, and long term, we use various indicators. The most relevant indicators relate to the sector and the geography of the borrower. Most of our (corporate) borrowers are operating in climate-insensitive sectors in the Netherlands. The amount and percentage of carbon-related assets relative to total assets is low.	For our AuM we measure the carbon intensity, relative and absolute emissions of all companies we invest in for our own funds. When analysing the results we pay close attention to the most carbon-intensive sectors (e.g. oil & gas, mining, utilities and industrials) by using ISS ethics data. Please refer to our annual responsible investment report: kempen.com/en/asset-management/responsible-investment.

b. Our disclosures on scope 1, 2 and 3 (emissions as defined in GHG document)	Since 2011, we have disclosed the scope 1, 2 and 3 emissions of our own organisation in our annual report, in line with the GHG Protocol; see our 2019 annual report (p. 24) and our CSR supplement (pp. 3-4). Our carbon disclosures are presented both in absolute numbers (tonnes) and in intensity ratios (tonnes per FTE). Our reduction targets are also presented in both absolute terms and intensity ratios. As of our 2016 annual report we also report our scope 3 carbon data on Category 15: Investments. These new data, which are in line with the GHG Protocol, relate to the carbon emissions of our balance sheet, mainly mortgage loans, other loans and proprietary investments. In 2017, we complemented these data with carbon emission data relating to our assets under management. For 2018 and 2019, we have disclosed the same data. See our annual report 2019 (p. 24) for details.	We started calculating carbon emissions in 2016 for engagement purposes. We then further evolved our methodology in 2017 and hired an external consultant (ISS) to deliver more carbon data and to calculate the carbon footprint of our assets under management. The calculated carbon footprint was published in Van Lanschot Kempen's 2018 and 2019 annual reports and in Kempen's responsible investment report; see: kempen.com/en/asset-management/responsible-investment. Three different carbon metrics related to our AuM are presented: an absolute footprint (tCO_2), a carbon intensity number (tCO_2/€m sales) and a relative footprint (tCO_2/€m invested). Due to fragmented reporting of the underlying companies and lack of data on private investments, the three metrics were calculated for listed equities, corporate bonds and government bonds for around 44% of total AuM.
c. Our targets used to manage climate-related risks and opportunities and our performance against targets	Despite our small and indirect climate change impact, our Executive Board has – as part of Van Lanschot Kempens' sustainability policy – set a corporate reduction target for the emissions of our own organisation. From 2011 (base year) until November 2018, this target was -2% per FTE per year; since then it has been raised to -2.5% per FTE per year. In 2019, we reduced our direct carbon emissions by 5.6% per FTE. Until 2018, we also compensated around 40% of our own emissions via an offsetting programme. As of 2019, we committed to compensate all our own (operational) carbon emissions, making us "climate neutral". In addition, for our balance sheet-related carbon emissions, we have defined a carbon reduction target per euro invested in mortgages. This target entails a reduction in carbon emissions caused by mortgages, compared to last year. In 2019, we reduced these emissions by 2.0%. For further details on the emission targets and results described above, see our annual report 2019 (p. 19, p. 24 and p. 30) and our CSR Supplement (pp. 3-4).	Having calculated three carbon metrics in 2017, 2018 and 2019, we have not yet set any climate-specific targets. We expect to arrive at climate targets during 2020.