Climate change policy

Amsterdam, The Netherlands
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1. Background

Climate change is a material risk making an increasing impact on global markets, with far-reaching consequences for the planet and human wellbeing. It affects public and private sectors alike, at both global and local levels. Investors therefore need to take climate change risks and opportunities into account and act to manage them.

Meeting the challenge of climate change requires international cooperation and the much-welcomed Paris Agreement, signed in 2015, commits almost all countries to keeping global warming below 2°C this century (compared to pre-industrial levels), and to strive to limit the increase to 1.5°C. Since then several countries have locked-in climate targets and laws[1], with the European Union setting an ambition to become a net-zero economy by 2050 and implementing its EU Sustainable Finance Action Plan to align European regulation with a climate neutral economy. Central banks are investigating the risks climate change poses to financial institutions and the stability of the financial system. And more and more companies are taking steps to integrate climate risks - and opportunities - in their business models.

Investors are exposed to climate change risks and opportunities too and have an important role to play in both facilitating the transition to a low-carbon economy and managing the climate risks of their investee companies.

The scope of this policy relates to the investments of Van Lanschot Kempen.

[1] The Paris Climate Agreement is (being) translated into national commitments,policies, laws and regulations. Several countries have made a commitment to pursue full or partial climate neutrality over the coming decades – amongst others:the United Kingdom as the first of the G7 countries (climate-neutral by 2050), France (climate-neutral by 2050), Denmark (70% GHG emissions reduction by 2030), Finland (climate-neutral by 2035), Sweden (zero emissions by 2045), and the Netherlands (95% GHG emissions reduction by 2050; as agreed in the Dutch Climate Agreement ('Klimaatakkoord') and Climate law ('Klimaatwet')).

2. Our position

As a long-term investor, we believe climate change represents a systemic risk facing the economy, society and environment, and we want to consider the risks and opportunities this presents to our investments in the coming decades. Climate change is an ESG focus area for us, and we are convinced that we can contribute to progress in this area. We have therefore set a long-term commitment (2050), a mid-term ambition (2030) and short-term objectives (2025) on climate change. These fit well with our belief in sustainable value creation through long-term stewardship.

Year	Ambition	Scope
2050	Long-term commitment	Become a net zero investor
2030	Mid-term ambition	All listed and non-listed investments aligned with Paris pathway
2025	Short-term objectives	All listed investments aligned with Paris pathway

Our commitment, ambition and objectives fit well with the long-term nature of climate change and are aligned with the Paris Agreement goals, Dutch Climate Agreement ("Klimaatakkoord"), Europe's ambition to become a net-zero economy by 2050 and the +1.5°C scenarios from the UN IPCC.[2] We therefore support, act and report in line with the Task-Force on Climate-related Financial Disclosures (TCFD).[3] We also want to send a clear signal to stakeholders in our value chain, and our investee companies in particular.

- **Commitment 2050**: As a long-term investor, we are committed to aligning with the Paris Agreement goals and contributing to the transition to a low carbon economy by 2050. We commit to have net-zero emission investments by 2050.
- **Ambition 2030**: By 2030 we aim to be aligned with a path to achieving the Paris Agreement and Dutch Klimaatakkoord goals for all listed and non-listed investments.
- **Objective 2025**: By 2025, we aim to be aligned with a path to achieving the Paris Agreement and Dutch Klimaatakkoord goals for all listed investments. For the more sustainable and impact investments we expect climate aligned pathways in line with the EU Benchmarks[4] or alike.

Objectives for 2025 for internal and external fund managers are:

- **Kempen listed funds**: We will, on an aggregate level, aim to be aligned with a path to achieving the Paris Agreement and Dutch Klimaatakkoord goals, including on carbon intensity metrics.[5]
- **Kempen clients**: We will advise and encourage clients to align listed equity investments with a path to achieving the Paris Agreement and Dutch Klimaatakkoord goals.
- **Van Lanschot clients**: We will strive to align the listed portfolios of private clients discretionary management with the Paris Agreement and Dutch Klimaatakkoord goals. The same applies for the listed funds where we advise clients.

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[2] UN IPCC (2018) "Global warming of 1.5°C". The EU regulation also consists of climate benchmarks which are based on the +1.5°C scenarios from the UN IPCC.
[3] More information how we act and report on the TCFD commitments can be found in our climate strategy and action plan (found here) and in our annual report (found here).
[4] The EU Benchmarks consists of two climate benchmarks, Climate Transition Benchmark and Paris Aligned Benchmark, which have the aim to reach net-zero emissions by 2050 - in line with the +1.5˚C scenarios from the UN IPCC.
[5] As we care about the direction and reduction of carbon emissions in the economy, it might be that the actual trend may deviate from the suggested average trend line.

3. Our approach

To achieve this policy, we use four ESG pillars and have set 2025 objectives[6] for each one.

Pillar 1: Exclusions

We have assessed several energy related activities (e.g. unconventional oil and gas) and have concluded that some of these are generally detrimental to the transition towards a low carbon economy. We believe that coal mining and tar sands have an adverse impact on climate change and companies should over time not be involved in such activities anymore. We have therefore formulated objectives for all fund managers where we have influence.[7] We will monitor the progress made and will annually review these objectives – as part of the climate change policy review – to assess if these objectives will need to be updated.[8]

Moreover, for Kempen funds we may apply some more ambitious objectives. See the Kempen funds section on our website for more details.

- **Coal exclusion objectives**
  We will not invest in coal companies which obtain a significant part of revenues (>20%) from thermal coal mining. Furthermore, we see it as a positive approach if funds have policies to reduce their exposure to thermal coal power generation. For more sustainable funds, we go a step further and exclude companies which obtain some revenues from thermal coal mining. For impact funds, there should be no companies which invest in coal activities. For Kempen funds we follow the same assumptions for coal mining but also exclude pure coal players from power generation (i.e. utilities).

- **Tar sands exclusion objectives**
  We will not invest in companies which obtain a significant part of revenues (>20%) from tar sands. Furthermore, we see it as a positive approach if funds have policies to reduce their Arctic oil/gas and/or shale oil/gas extraction. For more sustainable funds, we go a step further and exclude companies which obtain some revenues from tar sands. For impact funds, there are no companies which invest in tar sands activities. For Kempen funds we follow the same assumptions for tar sands, but in the sustainable funds we also exclude Arctic oil/gas and shale oil/gas extraction.

Pillar 2: ESG integration

Objective: To ensure that climate risks and opportunities are adequately considered in the funds' investment process. We prefer to invest in companies (via our internal and external fund managers) which integrate their climate risks and opportunities into their organisation, and are able to move towards a low carbon economy.

[6] Except objectives for the ESG pillar Exclusions, which relate to 2022 for external managers.
[7] By 'influence' we refer to a broader term than active funds, we refer to: (1) we generally have influence where allocation amounts are high (for active and passive fund managers); (2) we have influence for mandates via BestSelect; (3) we have influence where the selected fund is a co-creation between Van Lanschot Kempen and the asset manager in question.
[8] In 2022 we have (re-)assessed the activities and decided to lower the thresholds to significant revenues (>20% revenues) coming from coal mining and tar sands.

Pillar 3: Active ownership

Objective: To engage with companies, and other stakeholders, to encourage them to integrate climate risks and opportunities in their long-term business models and enable them to thrive in the transition to a low carbon economy. We also use our voting rights in line with our engagement activities.

- **Engagements**: Funds should have a clear climate engagement approach (aligned with their overall climate objective(s)) and show annual progress. We will start or continue the dialogue with relevant investee companies (with the highest greenhouse gas emissions relative to the fund) and fund managers and ask for Science Based Targets or equivalent and scope 3 reporting. For funds that go a step further on sustainability, we expect fund managers to engage with their companies on how their activities relate to climate-related EU regulation and the UN Sustainable Development Goals.

  For our listed Kempen funds we will engage with oil and gas investee companies if they are involved in Arctic oil/gas and shale oil/gas extraction with the aim to minimise negative environmental impact. Moreover, we will engage with our (active) fund managers on this topic as well.

  We continue to be an active participant of the Climate Action 100+ collaboration, to use our leverage to encourage the transition of +150 large carbon emitting companies towards a low carbon economy. We strive to encourage the external funds we invest in, or their organisations, to also be active participants in such collaborative climate initiatives.

- **Voting**: Funds should align their voting with their engagements and climate objective(s). For more details on our climate voting, please refer to our voting policy: https://www.kempen.com/-/media/Asset-Management/ESG/Polocies/2022-Kempen-Voting-Policy.pdf.

Pillar 4: Impact

We recognise that climate solutions will also be needed. We provide solutions to our clients for different asset classes where possible. For our listed equity investments we will work out the feasibility of climate related impact objectives the coming year.

Green bonds, Sustainability(-linked), Transition and SDG-linked bonds
The content of the green bond policy has been extended to include Sustainability(-linked) bonds, Transition bonds and SDG-linked bonds as these bonds also contribute to the transition towards a net-zero economy by 2050.

Objectives 2025
We will increase our green bond investments by selecting funds with objectives on green bonds, and objectives to increase their green bonds allocation and/or advance the financing of climate activities that contribute to the Paris Agreement goals and transition towards a low carbon economy. Funds prefer:

- Green bonds over non-green bonds if the risk-returns are similar. The funds have green bond targets on a comply or explain basis (e.g. it must fit with the investment strategy). Targets need to be relevant, although the investment strategy characteristics need to be taken into account (e.g. Government bonds versus Credit funds).
- Sustainable(-Linked) / SDG-Linked bonds over Non-sustainable / SDG-Linked bonds if the risks-returns are similar. Note that as with green bonds there are criteria for these bonds and these should be assessed on a case-by-case basis.

For impact funds green bonds are being considered as impact investments, so fixed income funds need to be green bond funds (or in combination with eligible climate Sustainability / SDG-linked bonds) with a focus on climate change solutions.

See our Appendix for the criteria and definitions we use.

Our position on gas-fired power and nuclear energy

With regards to gas-fired power and nuclear energy, we recognize the (potential) downsides or disadvantages. After carefully weighing the advantages and disadvantages of these technologies, our starting point in assessing investments in these activities is neutral - in accordance with the EU Taxonomy Regulation.

4. Governance, Reporting and Implementation

Governance

The Sustainability Investment Council sets the climate change policy and the policy will be reviewed annually.

Reporting on progress

We aim to report to our clients, and other stakeholders, on how we progress with regards to the commitment, ambition and objectives of our (client) portfolios. The reporting frequency will be at least annually. We use carbon data from our ESG research provider ISS ESG. The carbon emission measures can be found in the Appendix.

Implementation

We will implement updates of the climate change policy after its approval (see governance).

5. Appendix

Green bonds, Sustainability(-Linked), Transition and SDG-Linked bonds

Definitions

— Green bonds: Although there is still no universal agreed definition, we use the ICMA definition as best practice. Green bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance projects with clear environmental benefits and which follow best practices, e.g. alignment with the Green Bond Principles (GBP) and when applicable the EU Green Bond Standard (part of the EU Action Plan on Sustainable Finance). Note that the upcoming EU Green Bond Standard defines green bonds for Europe, which relates to green projects from the EU Taxonomy.8

— Sustainability(-Linked) bonds / SDG-Linked bonds: There is no universal agreed definition for these bonds, although the basis is that the financing relates to environmental and social activities. We follow the ICMA definitions where possible.
o Sustainability bonds: Bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both green and social projects. Sustainability bonds are aligned with the four core components of both the GBP and Social Bond Principles (SBP) with the former being especially relevant to underlying green projects and the latter to underlying social projects.
o Sustainability-Linked bonds: Any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ ESG objectives.
o SDG-Linked bonds: Bonds where the proceeds will be exclusively applied to finance or re-finance activities to achieve the SDGs set by the company.
o Transition bonds: There is no agreed definition for these bonds. In general, these relatively new bonds have the aim of helping the transition towards a low carbon economy.

Criteria for green bonds

— Issuers need to be screened on ESG. Issuers on our Avoidance / Exclusion lists are not eligible for a green bond allocation.
— 'Brown issuers' that issue green bonds, which are in accordance with the GBP, may be considered. Such companies are considered on a case-by-case basis.
— Overall company policy regarding improvements to its sustainability profile to be clear and credible, broad and ambitious enough to foster the relevant sector's transition at the appropriate pace.
— Issuance has to be in full compliance with the GBP. Issuances follow best practices, which is currently GBP but the expectation is that it will be the EU Green Bond Standard (EU GBS).
— Issue has to provide a high degree of transparency (e.g. second opinion, third party verification).
— Issue is in line with investment guidelines.
— Fund managers need to take the criteria mentioned above into account in a structured manner to assess the eligibility of green bonds.

Criteria for Sustainability(-Linked), Transition and SDG-linked bonds
— Fund managers need to take the criteria into account in a structured manner to assess the eligibility of Sustainability(-Linked) / SDG-Linked bonds.
— Same criteria as green bonds except GBP: preferable Sustainable(-Linked) / SDG-Linked bonds comply with GBP / SBP (Social Bond Principles) as set forward by ICMA. If not, the Sustainability / SDG-Linked bonds will be assessed on a case-by-case basis to assess the credibility of the 'sustainability' of the bond. Guidelines are:
o Use of proceeds are used for sustainable / SDG activities (climate change related) in line with best practices (EU Taxonomy when useable).
o Monitoring and transparency on (climate related) objectives and results.
o Third party verification / audits where possible.
o Other measures taken by company to prevent 'greenwashing'.

— The same criteria apply to Transition bonds. Furthermore, note that these bonds focus on carbon intensive industries (e.g. oil production and coal mining) to finance their shift to cleaner ways of doing business. There is more risk involved as the activities could not comply with sustainable activities as mentioned in the EU Taxonomy. ICMA has set up a working group Climate Transition Finance that considers providing guidance for potential future issuances. When available this guidance can be used as best-practice.

Carbon emissions measures

Carbon emission intensity will be used as the carbon metric. It is:

- based on Revenues (weighted average carbon intensity (WACI)). Used for our commitment, ambition and objectives.
- based on Enterprise Value Including Cash (EVIC), which is also in line with the metric currently discussed in the context of the EU Regulation and the EU climate benchmarks. Used for our current carbon footprint.

We disclose both metrics in our Van Lanschot Kempen Annual Report and for a selection of our investment products also in our Van Lanschot Kempen Stewardship & Responsible Investment report.

When we disclose the carbon footprint of our assets under management, we do not take into account any form of offsetting (via voluntary schemes) that investee companies may have adopted. This is in accordance with draft IIGCC Offsetting principles.[9] Voluntary carbon offsetting refers to a reduction in GHG emissions – or an increase in carbon storage (e.g. through land restoration or the planting of trees) – that is used to compensate for emissions that occur elsewhere. We do value the offsetting of GHG emissions by investee companies, as a supplementary measure beyond the reduction of GHG emissions – especially for hard to abate GHG emissions.

[9] IIGCC (2022), IIGCC Principles for investors and corporate offsetting: for consultation

Disclaimer

Additional information

Van Lanschot Kempen NV has its registered office at Hooge Steenweg 29, 5211 JN 's-Hertogenbosch, the Netherlands, COC no. 16038212 with VAT identification number NL001145770B01, is registered as a bank with the Netherlands Authority for the Financial Markets (AFM) and De Nederlandsche Bank N.V. (DNB) in the Financial Supervision Act (Wft) register. Eventuele klachten kunt u richten aan Van Lanschot Kempen NV of de afdeling Klachtenmanagement van het hoofdkantoor, Postbus 1021, 5200 HC 's-Hertogenbosch.

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