

Annual Report 2012

Sustainability Report





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Publication date:

April 2, 2013

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Introduction

This report is intended for Kempen Capital Management's (KCM's) clients, institutional investors, non-governmental organizations and anyone else who is interested in KCM's responsible investment policy. In this report KCM will highlight the contribution that has been made to enable a more responsible investment portfolio.

KCM uses international guidelines and conventions to embed responsible investing in its organization. The method used to achieve results meets the criteria with respect to environmental policy, social policy and sound governance. The abbreviation ESG (Environmental, Social and Governance) is often used to describe these criteria. In a substantial percentage of KCM's investments, environmental, social and corporate governance aspects are integrated. In this report this is explained in more depth. In addition, the steps that have been taken during 2012 are described.

In the Foreword Erik Luttenberg (COO KCM/Chairman of ESG Council) and Paul Gerla (CEO KCM) will highlight why integrated ESG is important for KCM. In chapter one, the responsible investment policy is explained. One of the key aspects of this policy is engagement; initiate a dialogue with the companies KCM invests in, in order to achieve results on different ESG criteria. The dialogue can either be direct or indirect. An indirect dialogue involves communicating with the fund managers of the funds KCM invests in. This approach is described in chapter two. The direct approach, which means KCM communicates directly with the company, is discussed in chapter three. In this chapter several examples of engagement activities undertaken by KCM and the external consultant are explained. In the final chapter KCM's voting policy is outlined.

Foreword

We are very pleased to present the 2012 Sustainability Report. As an asset manager KCM believes in focus. This means that we concentrate first and foremost on the financial returns of our mutual funds and client solutions. In addition, there is a growing need for accountability of the responsibility aspects of our investment efforts. KCM has an integrated responsible investment policy, which is based on international commonly used norms and values. Companies that do not meet the basic norms and values are excluded and added to the exclusion list. However, companies that do meet basic norms and standards but that still need to take steps regarding ESG criteria, are engaged with. KCM has deliberately chosen for engagement as we are convinced that this approach is the most effective way to achieve change at our counter parties in accordance with our ESG criteria.

Our engagement policy is based on an active dialogue. The aim of the dialogue is to initiate change at companies, fund managers or other stakeholders in order to act in consistency with the international conventions and treaties KCM adheres to. The subject of the engagement can be based on one or more of the following topics: labour rights, human rights, corruption and bribery, environment, arms/weapons, pornography, nuclear energy, animal welfare and/or tobacco.

Engagement is an ongoing process and we are aware that it can take considerable time to achieve the desired results. It is therefore an essential aspect of any engagement strategy to regularly disclose the results achieved. KCM reports the results of its engagement activities to its clients on a quarterly basis. Although engagement is the primary tool for providing responsible investment solutions, we occasionally have to conclude that the outlook for a positive outcome to the engagement process is poor. In such a case, we may decide to add the company to our exclusion list.

To pursue our engagement policy properly, we have established a partnership with external consultant GES

Investment Services (GES). This is a leading Swedish research and service provider for responsible investors. Together with GES and the fund managers we search for responsible investment solutions.

In 2012, we have improved our responsible investment process. We started engagement with our credit funds, increased the number of approved countries to our government bonds universe¹, one of our external managers launched a specific ESG fund² and we have achieved successes on our engagement activities.

Our goal for 2013 is to follow up, in consultation with our clients, on different ESG themes and focus even more on our responsible investment activities. To make this possible we decided to hire an ESG officer who will be dedicated to integrate the ESG aspects in our investment policy even further.

Erik Luttenberg
COO Kempen Capital Management
Chairman ESG Council

Paul Gerla
CEO Kempen Capital Management

¹ For more information see section 1.2.1.

² In 2012 Acadian Asset Management started offering the Acadian Global Equity SRI UCITS fund.

1. ESG Process

KCM believes that the achievement of investment results has to be aligned with sustainability criteria. To make this possible environmental, social and corporate governance (ESG) criteria have been integrated into the investment process. The focus of this chapter is to explain KCM's ESG process.

To help define the ESG criteria KCM has signed two initiatives:

- 1) KCM has signed the United Nations Principles for Responsible Investment (PRI)
- 2) Parent company F. Van Lanschot Bankiers N.V. (Van Lanschot) has signed the United Nations Global Compact (UNGC) and through Van Lanschot, KCM is compliant with the UNGC.

By signing the PRI and UNGC, KCM underlines its ambition to pursue an active and involved relationship with investment funds with respect to ESG.

United Nations Principles for Responsible Investment (PRI):

The United Nations PRI is a set of aspirational and voluntary principles for financial institutions focused on environmental, social and corporate governance (ESG) aspects. Signing the principles indicates an effort to actually use these criteria in the investment policy. The six principles are:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

For more information visit www.unpri.org

United Nations Global Compact (UNGC):

The United Nations GC offers a globally-recognised framework for environmental, social and governance (ESG) policies and practices. It consists of ten universal principles derived from various UN conventions and treaties. The principles are focused on human rights, labour, environment and anti-corruption:

1. Businesses should support and respect the protection of internationally proclaimed human rights.
2. Businesses should make sure they are not complicit in human rights abuses.
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. Businesses should uphold the elimination of all forms of forced and compulsory labour.
5. Businesses should uphold the effective abolition of child labour.
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.
7. Businesses should support a precautionary approach to environmental challenges.
8. Businesses should undertake initiatives to promote greater environmental responsibility.
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.
10. Businesses should work against corruption in all its forms, including extortion and bribery.

For more information visit www.unglobalcompact.org

In addition to the two initiatives, KCM takes the VFI Guidelines into account. VFI is an association for Dutch charities and foundations. In 2010 VFI published guidelines for responsible investment³. It lists the 'responsible' issues that the board of an institution should take into consideration when defining its investment policy. A distinction is made between *general* and *supplementary* criteria.

³ See 'Handreiking Verantwoord Vermogensbeheer Fondsenwervende Instellingen', www.vfi.nl.

VFI Guidelines**The general criteria:**

Violations of human rights
 Child labour
 Forced labour
 Freedom of association and the effective recognition
 of the right to collective bargaining
 Discrimination
 Corruption
 Production of nature, environment and climate
 Production and supply of weapon systems

The supplementary criteria:

Production of nuclear energy
 Production of pornography
 Production of fur
 Industrial biotechnology
 Preservation of biodiversity
 Use of animal testing
 Responsible chain management
 Production of alcoholic drinks
 Production of tobacco, cigarettes and cigars
 Provoke gambling addiction
 Use of genetic modification techniques
 Use of environmental hazardous substances

► 1.1 ESG Council

KCM opts for an intensive process covering the majority of the portfolio. This enables responsible investments a central and solid foundation. KCM concentrates first and foremost on financial returns. To maintain this focus and ensure that sustainable assessment is validated by an independent party, KCM has teamed up with external engagement manager GES Investment Services.

An Environmental Social Governance Council (ESG Council) has been established to monitor the results of the process and keep up with trends in this area. In addition, the ESG Council is responsible for:

- Developing an integral ESG policy.
- Evaluating the screened criteria.
- Advising on controversial criteria and regularly reviewing the exclusion list.
- Evaluating ESG performance of fund managers.

In 2012 the ESG Council consisted of representatives from KCM (Erik Luttenberg (Chairman), Karen McGrath, Reinoud

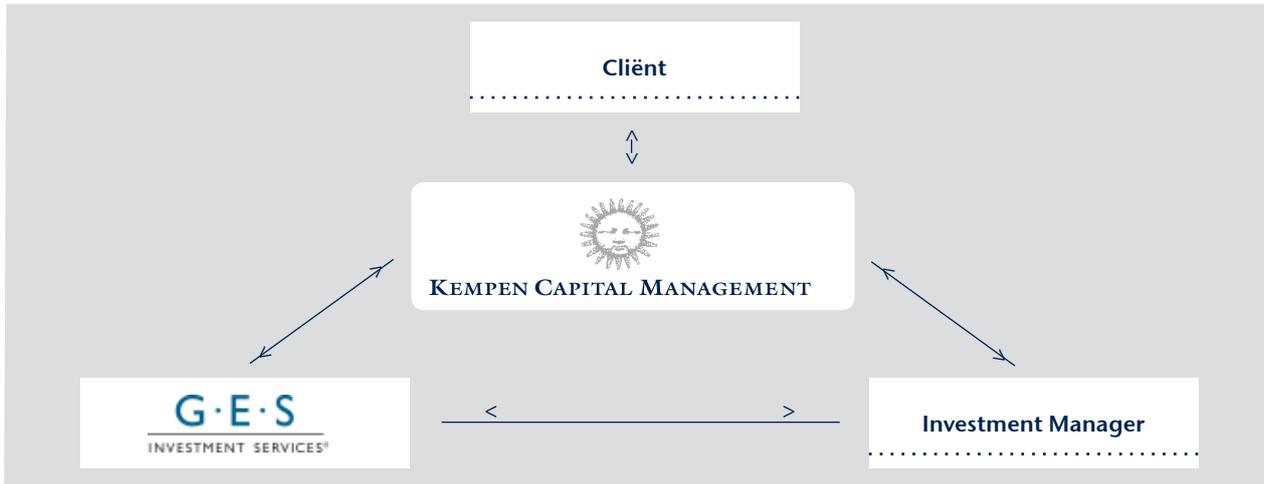
van Ieperen Bokhorst, Ulrike Beyrich, Almar Rietberg and Bas Haasnoot), Van Lanschot, GES and the European Centre for Corporate Engagement (ECCE). ECCE is a research consortium established by experts from the University of Maastricht and the RSM Erasmus University.

► 1.2 Screening GES

The partnership with GES enables KCM to contribute actively on improving corporate governance and increasing awareness of sustainability. GES brings expertise to KCM with an extensive database of individual (engagement) cases. It also has the ability to keep a close track on trends and events in the market and report on important ESG issues.

KCM is responsible for clients' investments which consist of external and internal funds/mandates. GES screens the actively managed internal and external investment funds using ESG criteria. The resulting information is reported back to KCM and the underlying fund manager.

ESG Process



Internal funds/mandates

KCM and GES hold frequent engagement meetings. The provided information is discussed by the KCM fund manager with the management of the companies in which they invest. Due to the (large) positions the fund managers hold they can exert influence on the companies. The goal of meeting with the management is to improve corporate governance and increase awareness of responsible investments. This means that where applicable KCM's process is based on a dialogue with the intention to initiate change and safeguard investments.

External funds/mandates

The process for external funds/mandates is similar to that of internal funds/mandates. KCM selects external fund managers and GES subsequently assesses the fund managers according to the sustainability criteria based on international norms and values. GES reports the results to KCM and the information is discussed with the external fund manager.

The selection of external fund managers is based on a large number of financial and non-financial criteria and ESG criteria form an integral part of the selection process. This means that prior to approval of a newly-selected fund, KCM verifies whether:

- The fund manager is a Principles for Responsible Investment (PRI) signatory.
- The fund manager is open to discussion on (potential) ESG issues.
- The current portfolio contains excluded companies⁴.
- The fund is actively managed.

1.2.1 Screened asset classes

The table on the next page gives an overview of the different asset classes that are screened by GES based on international conventions and treaties.

In addition to the asset classes discussed below there are asset classes such as Fixed Income High Yield Bonds, Hedge Funds and Commodities. Those asset classes are (currently) not included in the GES screening.

At the end of 2012 KCM managed € 22,2 billion. Of this 42% was screened by GES. This is the same percentage as last year. However, the absolute amount increased from € 7,6 billion to € 9,4 billion.

⁴ For an explanation of excluded companies and the KCM exclusion list see page 12.

Asset class	Internal funds	External funds
Government bonds	Yes	No
Euro investment grade credits	Yes	No
Equities	Yes	Yes
Real estate	Yes	Yes

Government bonds

A substantial building block of a portfolio is covered by government bonds. GES screens the universe of government bonds in order to obtain an overview and awareness of countries that comply with internationally accepted ESG criteria in line with the key conventions.

KCM has set up a list of preferred countries for the responsible (ESG) investment universe. Those countries need to meet two requirements:

- 1) The government bonds should be emitted by democratic governments.
- 2) These governments should have signed over 90% of the essential conventions in order to be ESG approved⁵. Countries who have signed over 80% but less than 90% will be considered in the ESG Council for approval.

In 2011 KCM approved eleven countries whose governments issued bonds that comply with the KCM ESG criteria. In 2012 KCM extended the list to include fifteen government bonds. The list now also includes non-Euro government bonds.

- | | |
|--------------------|-----------------------|
| 1. Australia *new* | 9. The Netherlands |
| 2. Austria | 10. Norway *new* |
| 3. Belgium | 11. Portugal |
| 4. Denmark | 12. Spain |
| 5. France | 13. Sweden |
| 6. Germany | 14. Switzerland *new* |
| 7. Ireland | 15. UK *new* |
| 8. Italy | |

Euro investment grade credits

The investment funds managed by KCM are screened on ESG issues based on international norms and values. In 2013 KCM expects to increase the screening to also include external funds.

Equities

The actively managed investment funds managed by KCM and the externally selected funds are screened on ESG issues based on international norms and values. The passively managed funds are not used for engagement as these funds generally use quantitative models to track an index. However, KCM aims to select passive funds that take ESG criteria into account.

Real Estate

The investment funds managed by KCM and externally selected funds are screened on ESG issues based on international norms and values.

Of the four asset classes equities and real estate are most suited for the application of sustainability criteria. This is because:

- The investors are shareholders who own a section of the organisation and are therefore ultimately responsible for the company. This position allows the shareholders to exert influence through a dialogue with the fund managers.
- The fund managers are active as shareholders and frequently contact the management of companies.
- Shareholders can use their voting rights.

⁵ For a complete list of the conventions and treaties see Appendix II.

► 1.3 ESG Issues

KCM's engagement framework provides guidelines for the following topics. The topics are based on the international conventions and treaties KCM adheres to⁶.

Labour rights

According to various conventions issued by the International Labour Organization (ILO) companies should not be complicit in any form of forced labour, child labour or discrimination in respect of employment. Furthermore, companies should uphold the freedom of association and the effective recognition of the right to collective bargaining. In addition the ILO has provided principles for health and safety measures at the workplace and it also discusses the hours of work.

Human Rights

Companies should support and respect the protection of internationally-proclaimed human rights and make sure that they are not complicit in human rights abuses. The 18 conventions KCM uses define civil, political, economic, social and cultural rights. Furthermore, they focus on the rights of children, indigenous people, migrant workers and refugees. In addition, the conventions provide guidance for the elimination of racial discrimination and discrimination against woman. It should be noted that a number of human rights treaties is specific to the protection of victims of international armed conflicts and as such provides indirect guidance for a definition of inhumane weapons.

Environment

The development of international environmental standards finds its roots in the 1972 UN Stockholm Declaration on the Human Environment. Since then many specific treaties have been agreed upon to outline best practices focused on the protection of biological diversity, prevention of climate change and air pollution. Additional conventions govern the movement of hazardous waste, hazardous chemicals and

pesticides in international trade as well as dealing with persistent organic pollutants, specifically oil pollution.

Companies should support a precautionary approach to environmental challenges and encourage the development and diffusion of environmentally-friendly technologies.

Corruption and bribery

KCM adopts two conventions on corruption and bribery. One of them is the OECD Anti-Bribery Convention, which establishes legally-binding standards against bribery of public officials in international transactions. Companies should work against corruption in all its forms, including extortion and bribery.

Arms/weapons

The Geneva Convention has set the standards for humanitarian treatment of victims of war. It also provides indirect guidance for the definition of inhumane weapons. More explicit conventions have been agreed upon to prohibit the use, production and stockpiling of chemical weapons, anti-personnel mines, cluster munitions and the non-proliferation of nuclear weapons.

In the engagement activities, KCM has experienced complexity arising from the fact that certain conventions are not globally accepted. In particular, the United States has opted out of specific weapons-related conventions. KCM bases its engagement activities on the conventions that the Dutch government has ratified, which includes the 1997 Mine Ban Treaty and the 2008 Convention against Cluster Munitions.

Pornography

Human rights conventions indirectly provide guidelines for protection against sexual abuse. It could be considered as a specific form of forced labour or inhumane and degrading treatment. Equally, abuse is considered a violation of the conventions on discrimination against women and children's rights. In addition, there is a specific protocol against child pornography and child prostitution. Companies

⁶ For a complete list of the conventions and treaties see Appendix II.

should respect human rights in general and similar to this should not be complicit in sexual abuse.

Nuclear energy

The International Atomic Energy Agency (IAEA) was established within the United Nations organisation and made responsible for international activities concerned with the peaceful use of atomic energy. The IAEA guards best practice in the field with specific guidelines for the safety of radioactive waste management. KCM does not categorically exclude companies whose business is related to the production of nuclear energy, however KCM does exclude companies that are involved in the production of nuclear warheads. KCM's engagement efforts are directed at adherence to the standards set by the IAEA.

Animal welfare (including fur and animal testing)

The European Convention for the Protection of Animals kept for Farming Purposes provides guidelines for the well-being of animals that are kept for the production of food, wool, skin or fur. KCM does not exclude companies that produce or trade fur but KCM's engagement efforts are aimed at ensuring that companies and their suppliers adhere to these guidelines. Furthermore, for KCM animal testing is not a reason to exclude companies from the investment universe as long as three demands are met: 1) if the aim of the experiments cannot be satisfied by use of another method, 2) if as few animals as possible are used, and 3) if the animals are not exposed to more suffering than absolutely necessary.

Tobacco

The World Health Organization (WHO) Framework Convention on Tobacco Control governs the production, sale, distribution, advertisement and taxation of tobacco. KCM does not exclude tobacco companies from investments. However, KCM's engagement efforts focus on the provisions of the Convention on Tobacco Control that ultimately aim to limit the use of tobacco worldwide. A specific issue within these provisions is related to the marketing practices of tobacco companies in developing countries.

► 1.4 Evaluate, engage and exclude cases

KCM, supported by GES, distinguishes three types of screening results: evaluate, engage and exclude issues. The fund managers of KCM are expected to follow up on engage and exclude issues within six months and evaluate cases within twelve months after formal notice to the fund manager. The ESG Council supports the individual cases by setting clear engagement cases and milestones. KCM is convinced that focus on engagement in the long term will lead to the best results for clients.

Evaluate case

This indicates that reports from the media, non-governmental organizations or ongoing official investigations signaling potential violations of global norms by a company. It could mean that the legal investigation is ongoing and no other information is available.

Engagement case

This is a case where systematic incidents or an isolated incident has severe consequences for the environment or humans. GES has been able to verify the existence of the violation through reports from two or more independent credible sources. Furthermore, KCM and GES feel that there is a reasonable chance of effective company engagement. At the end of 2012 there were 38 engagement cases in KCM's portfolios.

Exclude case

This is a case with a business idea or operation that is in violation of international norms, and is deemed impossible to influence. Funds that choose to maintain investments in companies on the exclusion list will ultimately lose their eligibility for KCM and Van Lanschot client portfolios. The results of the engagement meetings will be monitored and reported on a quarterly basis by the ESG Council that advises KCM's investment committee. In 2012 KCM has not excluded any new companies.

ESG Process

KCM will regularly review the criteria for engagement and exclusion (at least annually). The potential impact on the exclusion list will be examined and, if necessary, the list will be updated and communicated to the fund managers KCM co-operates with and published on KCM's website.

If the issue is solved by the company, or the issue is not verifiable, then the engagement case is considered closed. In 2012 KCM closed 4 engagement cases: Duke Energy, PTT Exploration & Production Pcl & PTT Pcl and Rushydro⁷.

► Exclusion list⁸

Company	Home country	Involved with	Violation of
Alliant Techsystems	US	Production of components for cluster munitions	Convention on Cluster Munitions (Dublin, 2008)
Babcock & Wilcox	US	Production of warheads	The Treaty on the Non-Proliferation of Nuclear Weapons (New York, 1968)
Gencorp Inc.	US	Production of components for cluster munitions	Convention on Cluster Munitions (Dublin, 2008)
General Dynamics Corp	US	Production of cluster munitions	Convention on Cluster Munitions (Dublin, 2008)
Hanwha Corp	KR	Marketing and Production of cluster munitions	Convention on Cluster Munitions (Dublin, 2008)
Jacobs Engineering Group	US	Production of warheads	The Treaty on the Non-Proliferation of Nuclear Weapons (New York, 1968)
L-3 Communications Holding	US	Production of components for cluster munitions	Convention on Cluster Munitions (Dublin, 2008)
Lockheed Martin Corp	US	Production of weapon systems for cluster munitions	Convention on Cluster Munitions (Dublin, 2008)
Poongsan Corp	KR	Marketing of cluster munitions	Convention on Cluster Munitions (Dublin, 2008)
Raytheon	US	Marketing of cluster munitions	Convention on Cluster Munitions (Dublin, 2008)
Serco Group	UK	Production of warheads	The Treaty on the Non-Proliferation of Nuclear Weapons (New York, 1968)
Singapore Technologies Engineering	SGD	Production of cluster munitions Production of anti-personnel mines	Convention on Cluster Munitions (Dublin, 2008) Mine Ban Treaty (Ottawa, 1997)
Textron	US	Production of cluster munitions	Convention on Cluster Munitions (Dublin, 2008)

⁷ For more information about the four cases see section 2.1.

⁸ For the most recent exclusion list visit www.kempen.nl.

KCM policy on weapons

In the policy on nuclear weapons KCM has made a distinction between manufacturers of nuclear missiles and manufacturers of nuclear warheads that fit on nuclear missiles. In the first case KCM follows an engagement strategy with the company and in the second case KCM excludes the company.

The Geneva Conventions and their Additional Protocols establish the standards of international law for the humanitarian treatment of war. Furthermore, the production of warheads would go directly against the disarmament objective embedded in the Treaty on the Non-Proliferation of Nuclear Weapons. The Treaty has three objectives: 1) to prevent the spread of nuclear weapons and weapon technology, 2) to promote cooperation in the peaceful uses of nuclear energy and 3) to further the goal of achieving nuclear disarmament and general and complete disarmament.

In addition, the companies that manufacture nuclear warheads are highly dependent on and closely linked to their national defense organizations. Therefore, the general outlook for engagement is minimal. All companies on the exclusion list can be classified as companies involved in cluster munitions, anti-personnel mines and/or nuclear warheads and are listed below.

Recent development: Dutch prohibition on cluster munitions

Following national legislation in Belgium, Ireland and Luxembourg, Dutch law includes a prohibition on cluster munitions. The prohibition entered into force on 01-01-2013. It states that Dutch financial institutions are prohibited from investing (and financing) companies that produce, sell or distribute cluster munitions. To assist financial institutions, a provisional and indicative list of companies has been prepared for which the prohibition applies. The list might be revised during 2013.

The companies on the indicative list have been added to the KCM exclusion list (insofar the company was not already on the exclusion list). For the latest exclusion list visit our website: www.kempen.com.

2. Fund managers screened and engaged

The engagement with companies can be approached in two ways: KCM engages with the fund manager of the fund KCM invests in and/or KCM/GES engages directly with the company. In this chapter the main focus is on the engagement with the fund managers.

Investment funds are screened at each quarter end. By the fourth quarter (December 2012), the list comprised 27 screened investment funds. In addition to the screened funds, the quarterly screening covers the list of stocks that are eligible for investment advice to private clients of Van Lanschot.

In 2012 engagement meetings were held with internal KCM portfolio managers and with the following external asset managers. The engagement results are described in more detail in section 2.2.

- 2.2.1 Acadian Asset Management
- 2.2.2 BlackRock Investment Management
- 2.2.3 Calamos Investments
- 2.2.4 Edinburgh Partners
- 2.2.5 Fidelity International
- 2.2.6 Invesco Asset Management
- 2.2.7 J.P. Morgan Asset Management
- 2.2.8 Montanaro Asset Management
- 2.2.9 Neptune Investment Management
- 2.2.10 NWQ Investment Management
- 2.2.11 SKAGEN AS
- 2.2.12 T. Rowe Price

KCM has seen that in previous years, fund management organisations are willing to cooperate with KCM's efforts to engage on ESG issues. Organisations appreciate the fact that KCM provides investment managers with detailed information about the ESG issues that have been identified with the help of GES. It gives them an insight into the prevailing views in Northern Europe on ESG policies. Understanding these views helps international fund management organisations to anticipate requirements from Northern European prospective clients or even legal requirements in certain countries.

Over the past two years, two international fund management organisations have launched a new fund that incorporates into their investment policy the ESG views prevalent in Europe.

- In 2011, NWQ introduced the NWQ Large-Cap Value ESG Fund
- In 2012, Acadian started offering the Acadian Global Equity SRI UCITS

It is pleasing to note that both funds have generated a slightly higher return in 2012 than the comparable funds that do not make use of ESG information. KCM does not claim that there is clear evidence to suggest that incorporating ESG information consistently leads to higher returns. However, KCM is convinced that awareness of ESG issues helps investment managers to better assess risks in their portfolio. Therefore, KCM believes that the newly launched funds will be able to generate returns that are similar to those of the comparable non-ESG funds and do this with a lower risk.

► 2.1 Positive engagement results (closed cases)

2.1.1 Asset Manager: Kempen Capital Management

Fund: Kempen Global High Dividend Fund
Company: Duke Energy

In 2009 and 2010, the High Dividend Equity strategy of KCM held an investment in Duke, a US based electricity producer. In the late 1990s, Duke conducted refurbishment work on eight of its oldest coal fired electric power plants in the Carolinas, without installing best available technology and equipment for control of nitrogen and sulfur dioxide air emissions. Such controls could have significantly reduced total volumes of these harmful gases. The refurbishments have been the subject of legal action, initiated in 2000 by the US Environmental Protection Agency and NGOs, to determine whether or not Duke breached the Clean Air Act.

Fund managers screened and engaged

The reported incident was associated to violations of the UN Global Compact Principles 7 and 9 on environment, and corresponding Guideline VI of the OECD Guidelines for Multinational Enterprises.

KCM has engaged with Duke since 2009 and GES has had an ongoing and constructive dialogue with the company since 2006. The research process has involved a meeting at the head office, discussions with power plant experts and European environmental regulators. In 2010, Duke forwarded GES a copy of its 2010 Integrated Resource Plan (Duke, 2010), which detailed commitments to retire all of the company's permanently-operating coal fired plants in the Carolinas that lack modern pollution control technologies by 2015. These commitments became legally binding in early 2012.

Duke communicated to GES how it now routinely assesses best applicable and renewable technologies, as evidenced by: the existence of a Technology Strategy and Policy group within the company; collaboration on clean technology research with various academic and industry institutions; and the use of the company's in-house Engineering Environmental Compliance Planning and Screening Model to determine best technologies. KCM is satisfied with the improved environmental policy and performance and has decided to close the engagement case.

OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are recommendations on Corporate Social Responsibility (CSR), addressed by 44 governments to their multinational enterprises.

The OECD Guidelines cover a broad range of issues: due diligence in the supply chain (II); disclosure (III); human rights (IV); employment and industrial relations (V); environment (VI); combating bribery (VII); consumer interests (VIII); science and technology (IX); competition (X); and taxation (XI).

For more information see www.oecdguidelines.nl.

2.1.2 Asset Manager: Fidelity International

Fund: Fidelity Funds South-East Asia Fund
Companies: PTT Exploration & Production Pcl/PTT Pcl

Investments in PTT Exploration & Production Pcl (PTTEP) and parent company PTT Pcl have been discussed with Fidelity International in the past few years as well as with two investment managers that KCM clients no longer have investments with. In August 2009, a crude oil and gas leak occurred at a field operated by PTTEP off the Australian coast. After several failed attempts, PTTEP succeeded to plug the leak in November 2009. The World Wildlife Fund (WWF) warned that the oil spill may take a heavy toll on the region's globally valuable wildlife. The reported incident was associated to a violation of the UN Global Compact Principles 7 and 8 on environment and the corresponding Guideline VI of the OECD Guidelines for Multinational Enterprises.

Independent of each other GES and Fidelity International have been in contact with the company since September 2009. GES has also discussed the matter with representatives of the Australian government which has decided to renew the operating license for PTTEP. WWF Australia has been lobbying for more stringent demands on PTTEP.

In 2011, GES met with PTTEP in Bangkok. The company has detailed for GES:

- The preventive and precautionary measures it has taken that led to the Australian Government's approval of PTTEP's continuous operations.
- How it ensures that precautionary and preventive measures are implemented throughout all operations.
- Funding a long-term environmental monitoring program to determine the environmental impacts from the incident.
- Supplied documentation on what changes have been implemented as a result of the incident in 2009. This documentation includes references to academic studies designed to identify possible needs for compensation and remediation in Indonesia.

Fund managers screened and engaged

The documentation also includes the company's stated commitment to take full responsibility for the incident.

Based on the measures that have been implemented and the transparency of the company KCM has decided to close the engagement case.

2.1.3

Company: *Rushydro*

In 2010, KCM presented a serious health and safety concern regarding Rushydro to a manager that KCM's clients no longer have an investment with. In August 2009, 75 employees were killed at a hydro-electric plant of the company in Southern Siberia. A parliamentary report holds the directors of the plant and Rushydro's management responsible for the accident, due to the lack of permanent monitoring and control over the power plant safety. The reported incident was associated to a violation of the UN Global Compact Principle 1 addressing safe and healthy working conditions and the corresponding Guideline V of the OECD Guidelines for Multinational Enterprises.

GES has had a constructive dialogue with Rushydro. The company has explained that the scale and nature of the accident was not assumed by any of the disaster scenarios used in the design phase. According to the company, safety was always an overarching priority of the company on all levels. The company has taken the following steps:

- There has been significant investment in technical rehabilitation and modernisation.
- Families of the victims have received RUB 126 million (EUR 3.2 million). Also, long term support programs are under way, including monthly pension, medical rehabilitation and psychological support.
- The restoration of the plant includes a new system that in the case of an accident automatically switches off the generator and shuts safety gates.
- Around the clock shifts on the crest of the dam have been introduced.

- The communication systems are now put outside the floodable zone and enable personnel to communicate with the central control room.
- The company has incorporated the recommendations from the Federal Service for Environmental, Technical and Nuclear Supervision in new standards, which formulate the requirements for operation of large hydropower plants. The standards were developed by a working group with representatives from Rushydro and other stakeholders such as the Russian Science Academy and an institute for the design of hydro power plants.
- Rushydro has demonstrated its emergency prevention, preparedness and response system, which relates to all of the company's plants.
- The company has a policy on Occupational Health and Safety and has provided documentation on how it is implementing this in its company level management system.

In June 2012, GES made a field trip to Southern Siberia to get first hand information on how Rushydro managed its responsibilities at and around the hydro electric power plant. The field trip included interviews with more than 15 responsible managers, construction site inspections, medical emergency system demonstrations and visits to schools and health facilities in the local community. Based on the information before and during this trip, KCM has decided to close the engagement case.

► 2.2 Update on ongoing engagement

2.2.1 Asset Manager: Acadian Asset Management

Fund: RIC - Acadian Global Equity SRI UCITS

In July 2012 the RIC - Acadian Global Equity SRI UCITS fund was launched and KCM and Van Lanschot switched from the RIC - Acadian Global Equity UCITS to the new fund. With the switch KCM's clients maintain access to the same global equity investment process but with the addition of ESG criteria. Based on information provided by GES, Acadian has established a list of roughly 60 companies that will be excluded from the investment universe. The newly assembled portfolio with the restricted investment universe differs from the older Global Equity UCITS in a number of ways:

- Holds fewer securities.
- Has a smaller allocation to Emerging Markets.
- IBM, instead of Apple, had the largest position at the end of the year.

From the launch date to the end of the year the new fund generated a total return that was 0.4% higher than that of the older fund. This shows that Acadian is able to generate similar results under the ESG restrictions imposed on the new fund and KCM believes that including ESG information will improve the risk-adjusted return over a longer period of time.

2.2.2 Asset Manager: BlackRock Investment Management

Fund: BGF European Fund

Company	Issue	Action
Eutelsat SA	Association to restriction of freedom of opinion and expression	Engage
Nestlé	Association to child labour in the cocoa industry	Engage
Rio Tinto	Association to environmental impact caused by mining activities	Engage
Royal Dutch Shell	Association to human rights violations resulting from pollution and environmental damage	Engage
Xstrata	Association to lead contamination from mining and processing	Engage

BlackRock is well-positioned to have a positive impact on corporate social responsibility. The firm has published a policy on corporate governance and engagement and employs dedicated ESG specialists who prioritise ESG activities at both a global level and across the firm. As a result, the firm tends to focus on those issues that apply to several of their funds. BlackRock was very aware of the abovementioned issues. It has engaged with the companies on several occasions and in line with their own ESG framework, that tends to emphasize corporate governance issues over environmental and social issues.

In some situations BlackRock prefers taking a thematic approach in which it targets an entire industry rather than single issues at individual companies. For example, in addition to approaching Rio Tinto and Xstrata separately, BlackRock engages with the mining industry to set standards for environmental policies, health and safety policies and community management. At Rio Tinto, which is accused of serious pollution at one of its mines, such requests from investors have led the company to publish their new standard on mine waste management at the end of 2012.

Fund managers screened and engaged

This means that Rio Tinto must now handle mine wastes at its operations in the conventional low-impact way. Moreover, it puts Freeport McMoRan, the Grasberg operator, under significant pressure to adopt a similar standard, something which the company has thus far been reluctant to do.

Another example would be the measures taken by chocolate producers to combat child labour in the cocoa supply chain. BlackRock is comfortable with Nestlé which has put Key Performance Indicators in place to monitor its suppliers. It is more concerned about the smaller players in the industry.

2.2.3 Asset Manager: Calamos Investments

Fund: Calamos Global Funds – US Growth Fund

Company	Issue	Action
Barrick Gold	Association to complicity in human rights abuses	Engage
	Association to environmental impact in mining project	Engage
Freeport McMoRan Copper & Gold Inc.	Association to environmental impact from mining activity	Engage
	Association to mine security concerns	Engage
Goldcorp	Association to inadequate consideration for the human rights of indigenous people	Engage
Apple	Association to poor labour and environmental practices at suppliers	Engage

Barrick Gold has been the subject of discussions with Calamos in 2010, 2011 and 2012. Significant progress has been made. The company published a detailed water quality monitoring report about the Porgera river into which the mine discharges its waste. The next step of the engagement will focus on the company reducing and ultimately stopping the riverine tailings disposal.

Freeport McMoRan and Goldcorp are associated with pollution issues that are similar to those of Barrick Gold. The environmental information regarding specific mines owned or operated by these companies was new to Calamos. For investment reasons the portfolio manager divested from Freeport McMoRan in April 2012. With Goldcorp, Calamos has had a thorough dialogue and responses from the company have been shared with GES and KCM.

In the course of the second half of 2012, clients of Kempen and Van Lanschot have sold their investments in the fund based on revised expectations for the financial performance of the fund. Since the fund is no longer on KCM's approved list, the portfolio of the fund is no longer screened based on ESG criteria.

2.2.4 Asset Manager: Edinburgh Partners

Fund: *Edinburgh Partners Pan European Opportunities Fund*

Company	Issue	Action
Royal Dutch Shell	Association to human rights violations resulting from pollution and environmental damage	Engage

In 2012 KCM continued the discussions with the portfolio manager about the environmental damage caused by activities of Royal Dutch Shell in Nigeria. Based on a series of meetings and conference calls, Edinburgh Partners has concluded that the company only just meets the minimum ESG criteria that the manager has established. This, in addition to reasons related to the financial prospects of the company, has led Edinburgh Partners to divest from Royal Dutch Shell in early 2012.

2.2.5 Asset Manager: Fidelity International

Fund: *Fidelity Funds – South East Asia Fund*

Company	Issue	Action
Astra International	Association to destroying habitat of critically endangered orangutans	Engage
Daewoo International	Association to human rights abuses in relation to pipeline	Engage
	Association to worst forms of child labour and forced labour	Engage
IOI Corporation	Association to land dispute	Engage
Jardine Matheson	Association to destroying habitat of critically endangered orangutans	Engage
Kingboard Chemical	Association to discharge of hazardous effluent from factories	Engage
Petrochina	Association to systematic health, safety and environment accidents	Engage
Rio Tinto	Association to environmental impact caused by mining activities	Engage

Fidelity is one of the largest global asset managers, and is therefore well-positioned to have a positive impact on corporate social responsibility. In October 2012 the firm became a signatory to the Principles for Responsible Investing (PRI). Fidelity targets ESG integration at the level of the financial analysts and to that extent it has added MSCI ESG Research and Ratings to its proprietary research systems. Fidelity has been active in all the abovementioned ESG cases. Each company is taking appropriate steps to mitigate the environmental impact of their operations and potential human rights violations associated with it.

In the case of Kingboard Chemical, the analysts of Fidelity have been able to verify improvements made by the company with respect to the treatment of waste water. They have also been given inspection reports by the local authorities that they believe to be an accurate assessment of the current situation. GES is in the process of following up on information from Kingboard Chemical.

Fund managers screened and engaged

2.2.6 Asset Manager: Invesco Asset Management

Fund: *Invesco Japanese Value Equity Fund*

Company	Issue	Action
Toyota Motor Corp	Association to anti-union practices	Engage

Since 2005, engagement efforts have been made by GES and others, to address the violation by Toyota Motor Corp of the right of workers in its factory on the Philippines to join a trade union of their own choice. In June 2012, as part of this engagement process, Kempen co-signed a letter to Toyota asking them to adopt a globally applicable labour rights policy. The policy should include the right to freedom of association and collective bargaining. During 2012, it was confirmed by two third-party sources that the existing and operating union in the Philippine Toyota factory is to be considered free and fair. Therefore, KCM considers current practices at Toyota to be in line with the freedom of association and collective bargaining, even though there is still a case pending at the International Labour Organization regarding this. Nonetheless, Toyota still needs to strengthen and clarify its policies to secure that there will be no future violations of this norm. Invesco decided not to sign the letter to Toyota.

Based on investment reasons KCM recommended clients to sell Invesco Japanese Value Equity Fund. KCM will support new steps taken by a group of investors, led by GES, with the aim to receive a public statement from Toyota ensuring adherence to international standards in countries where local law does not require them to do so.

2.2.7 Asset Manager: J.P. Morgan Asset Management

Fund: *J.P. Morgan Funds – Global Focus Fund*

Company	Issue	Action
FMC Corporation	Association to illegal exploitation of natural resources	Engage

The controversy regarding phosphate imported by FMC Corp from Western Sahara, was a new case for J.P. Morgan Asset Management. The firm is willing to engage but first requested further information from GES. For investment reasons clients have been recommended to divest from the J.P. Morgan Global Focus Fund and unfortunately with that, KCM lost its basis for further engagement with the investment manager.

2.2.8 Asset Manager Montanaro Asset Management Limited

Fund: *Montanaro European Smaller Companies Fund*

Company	Issue	Action
ÅF AB	Association to hydro power project breaching World Bank environmental and social standards	Engage
Andritz AG	Association to hydro power project breaching World Bank environmental and social standards	Engage

Fund managers screened and engaged

Both ÅF AB and Andritz AG have a role in the construction of a hydro power project in Turkey. The project has been criticised for many years for its expected significant environmental and social impact.

The portfolio manager has been actively involved in meetings with ÅF AB and has done some initial work on the involvement of Andritz in the project. GES is planning a webinar to share information about the abovementioned dam and its impact. ÅF AB has updated its due diligence process with regard to all projects the company is providing services to. Due to an internal audit ÅF AB's has concluded that the hydro power project in Turkey is in breach with a number of internal guidelines. The company has considered to withdraw from the project but has so far decided to stay. According to Montanaro the project in Turkey is an exception in the track record of ÅF AB. The company aims to adhere to very strict internal guidelines. The manager continues his dialogue with ÅF AB to monitor their actions with regards to the Turkish project as well as their acceptance of new projects.

2.2.9 Asset Manager: Neptune Investment Management

Fund: *Neptune European Opportunities Fund*

Company	Issue	Action
Goldcorp	Association to inadequate consideration for the human rights of indigenous people	Engage
Lindt & Sprüngli	Association to child labour in cocoa industry	Engage
Nestlé SA	Association to child labour in cocoa industry	Engage

Nestlé SA is associated with child labour in cocoa harvesting in Ghana, Ivory Coast, Nigeria and Cameroon. During 2012 Nestlé started a co-operation with the Fair Labour Association (FLA) and it reviewed labour conditions in Nestlé's cocoa supply chain in Ivory Coast. This makes Nestlé the first cocoa company to have such an independent review carried out. The results of the assessment conclude that child labour is still a reality on cocoa farms in Ivory Coast. Nestlé has since then started its mitigation work according to the joint action plan developed together with FLA. Actions to be taken include:

- Improvements to the company's supplier code.
- Setting up a new child labour monitoring system.
- Sourcing 15 percent of its global cocoa supply from farmers covered by the Nestle Cocoa Plan by 2013.

Although the manager divested from Nestlé last year, Neptune Investment Management has continued its dialogue with the company.

KCM has co-signed a letter to Nestlé and Lindt & Sprüngli requesting the cocoa buyers to share their long-term strategies for combating child labour in the supply chain and GES has held conference calls to discuss the response of the companies. Neptune investigated the issue associated to Goldcorp's mining operation in Guatemala. This raised concerns with the investment manager about the execution risk and potential short term impact on the financials of Goldcorp. The manager has sold Goldcorp for financial reasons and has not engaged with the company on this matter. It is KCM's impression that exploring the risks of the mine in Guatemala has influenced the investment opinion of the manager about Goldcorp.

Fund managers screened and engaged

2.2.10 Asset Manager: NWQ Investment Management

Fund: Nuveen NWQ Large-Cap Value ESG Fund

Company	Issue	Action
Motorola Solutions	Association to assisting in human rights violations in occupied territories	Engage

In 2012 the NWQ US Large Cap Value ESG Fund generated a (marginally) higher performance than the comparable fund managed without the incorporation of ESG criteria. Anecdotally, this confirms KCM's idea that ESG will not go at the expense of financial returns. The main difference to explain the better performance is a position in healthcare company Merck in the ESG fund versus a position in tobacco company Philip Morris held in the comparable US Equity fund. Although Philip Morris is not on KCM's exclusion list, the investment manager has decided not to invest in tobacco companies for its ESG fund.

Motorola Israel, a subsidiary of Motorola Solutions, provides radar-based surveillance systems for the Israeli settlements in the occupied Palestinian territories. NWQ did not have comments about the potential for engagement. There appears to be a difference of opinion between Europe and the US about certain aspects of the Israeli-Palestinian conflict. It is KCM's view that this investment manager rather would sell the Motorola Solutions shares than engage on the issue highlighted. As a matter of fact, in the first half of 2012, the investment manager sold Motorola Solutions.

2.2.11 Asset Manager: Skagen AS

Fund: Skagen Global, Skagen Kon-Tiki

Company	Issue	Action
AP Moller Maersk	Association to labour rights violations in several countries	Engage
BP	Association to systematic safety negligence at oil refinery	Engage
	Association to systematic oil spills in Alaska	Engage
	Association to fatal explosion and major oil spill	Engage
Electrobras	Association to violation of indigenous rights	Engage
Tesco	Association to violation of international labour rights	Engage
	Association to violations in supply chain	Engage
Transocean	Association to fatal explosion and major oil spill	Engage
Yahoo!	Association to violation of the freedom of expression	Engage

Skagen has no formal ESG policy but aligns itself with the Norwegian Government Pension Fund which operates a very strict ESG policy. Skagen has been in contact with several Norwegian BP employees and this confirmed that BP has put health and safety issues on top of the agenda. Skagen also informed KCM that the Norwegian regulator regards BP as best in class with respect to health and safety.

Regarding Tesco, Skagen pointed out that the company has set very high labour standards in the UK. Furthermore, the company has been open about the challenges it is facing in the US. Skagen has divested from the company; they will not address the issue further with Tesco. Skagen pointed out that Tesco is likely to close its US operations if the company does not succeed in making them profitable by 2014.

2.2.12 Asset Manager: T. Rowe Price

Fund: T. Rowe Price Global Emerging Markets Equity Fund
T. Rowe Price Asian ex-Japan Equity Fund

T. Rowe Price incorporates environmental and social governance analysis into the investment process. Amongst others, the firm employs dedicated ESG specialists who work together with the analysts and portfolio managers on ESG issues. Engagement efforts with regard to the below-mentioned companies will be limited to those that are also prioritised by T. Rowe Price internally.

T. Rowe Price Global Emerging Markets Equity Fund

Company	Issue	Action
Astra International	Association to destroying habitat of critically endangered orangutans	Engage
Kingboard Chemical	Association to discharge of hazardous effluent from factories	Engage
Posco	Association to environmental and human rights violations in steel project	Engage
	Association to human rights abuses in relation to pipeline project	Engage
	Association to worst forms of child labour and forced labour	Engage
	Association to fatal explosion and major oil spill	Engage
Rosneft	Association to inadequate precaution in high risk environment	Engage
Turkiye Garanti Bankasi	Association to hydro power project breaching World Bank environmental and social standards	Engage
Turkiye Halk Bankasi	Association to hydro power project breaching World Bank environmental and social standards	Engage

T. Rowe Price Asian ex-Japan Equity Fund

Company	Issue	Action
Jardine Matheson	Association to destroying habitat of critically endangered orangutans	Engage
Kingboard Chemical	Association to discharge of hazardous effluent from factories	Engage

The investment manager has focused its activities on Kingboard Chemical and Posco. Regarding the other companies the firm either feels 1) it does not have a large enough investment in each company or 2) the chances for successful engagement are too low.

Posco has agreed to a number of suggestions around a steel project of the company in India. In addition the company:

- Has provided T. Rowe Price and GES with the social cost and benefit analysis carried out by an independent agency.
- Has been transparent about its code of conduct that addresses human rights as well as other aspects of its various operations.
- Is committed to meet the environmental requirements from the Indian Ministry of Environment and Forests for the Indian steel plant and port once the operations have started.

Fund managers screened and engaged

Outside of the cases prioritised by T. Rowe Price, KCM notes that progress has been made at Turkiye Garanti Bank and Rosneft. In September 2012, Turkiye Garanti Bank presented improved sustainability policies of which more information will be published in the next Sustainable Review in early 2013. The company also underlined that the improved policy is a result of the experiences gained from their financial involvement in the Turkish hydro power project of Andritz and ÅF. At Rosneft, the stakeholder dialogue on biodiversity protection and other environmental management issues has improved.

2.2.12 Asset Manager: Kempen Capital Management

*Fund: Kempen European High Dividend Fund & Kempen Global High Dividend Fund
Kempen European Smaller Companies Fund
Kempen Euro Credit Fund
Kempen European Property funds*

Company	Issue	Action
Royal Dutch Shell	Association to human rights violations resulting from pollution and environmental damage	Engage
Nestlé SA	Association to child labour in the cocoa industry	Engage
Mondelez International	Association to child labour in the cocoa industry	Engage
Hennes & Mauritz	Association to child labour and forces labour in cotton industry	Engage
Tesco Plc	Association to violation of international labour standards	Engage
Barry Callebout	Association to child labour in the cocoa industry	Engage

Kempen European High Dividend Fund & Kempen Global High Dividend Fund

The fund managers of the Kempen European High Dividend Fund and the Kempen Global High Dividend Fund have continued to engage with Royal Dutch Shell which is associated with the violation of indigenous rights and environmental damage after an oil spill in Nigeria. The Kempen Dividend team initiated and participated in a call with Mutiu Sunmonu, Country Chair Shell Companies in Nigeria and Managing Director of the Shell Petroleum Development Company, and the energy specialist of GES.

Furthermore, the Kempen Dividend team participated in a coordinated engagement with Nestlé, organised by GES, which is associated to child labour in cocoa harvesting. Nestlé needs to establish a control system to bring a change to the situation.

In November 2012, Mondelez International (formerly known as Kraft Foods) stepped up its efforts to combat child labour in its cocoa supply chain by announcing its plans to invest \$400m over the next 10 years to help suppliers enhance productivity and improve sustainability efforts. This programme, called 'Cocoa Life', sets to improve livelihoods of 200,000 cocoa farmers and to reduce biodiversity loss and soil erosion in Ivory Coast, Ghana, Indonesia, Brazil, India and Dominican Republic. The company will work in partnership with a range of different organisations, including United Nations Development Program, the WWF and Anti-Slavery International and will develop robust principles to measure progress.

Fund managers screened and engaged

Kempen European Smaller Companies Fund

The investment manager of the Kempen European Smaller Companies Fund continued to engage with Barry Callebaut regarding child labour in the cocoa industry. Barry Callebaut introduced a 'cocoa horizons' project. This aims to improve farmer education through training and improve access to basic health care and clean water. Education is one of the main ways to combat child labour. Barry Callebaut has trained over 15,000 cocoa farmers from 50 farmer cooperatives in Ivory Coast in sustainable cocoa production, enabling them to become independently certified by Rainforest Alliance.

Rainforest Alliance Certified farms employees receive decent wages, respectable housing and healthcare, and their children have access to education, thus reducing child labour in the process. KCM is pleased with the work that Barry Callebaut has done and would like to see the continuation of these educational training initiatives as engagement continues.

Kempen Euro Credit Fund

In 2012 the fund managers of the credit team started screening their corporate bond portfolios.

Company	Issue	Action
Alstom	Association to complicity in human rights violations in hydro-electric project	Engage
BP	Association to systematic safety negligence at oil refinery	Engage
	Association to systematic oil spills in Alaska	Engage
	Association to fatal explosion and major oil spill	Engage
Eutelsat	Association to restriction of freedom of opinion and expression	Engage
Finmeccanica	Association to nuclear weapon programmes	Engage
Safran Group	Association to nuclear weapon programmes	Engage
Nestlé	Association to child labour in the cocoa industry	Engage

The team started to engage with Finmeccanica regarding the delivery of communication systems to the government of Syria. Also engagement was started with Safran Group regarding the involvement in the development of nuclear missiles through its subsidiary Herakles that was formed in May 2012.

The issue for Alstom is the risks associated to operations in Sudan. The company has augmented its human rights policy with a sustainability assessment protocol for hydro projects. This standard has been established by the International Hydropower Association (IHA) after consultation with representatives from social and environmental NGOs, governments, commercial and development banks and the HEA (Hydro Equipment Association, in which Alstom is a founding member). The utilities are now testing the efficiency of this protocol.

Kempen European Property funds

Company	Issue	Action
Capital Shopping Centres	Environment	Engage
Cofinimmo	Environment	Engage
Great Portland Estates	Environment	Engage

Fund managers screened and engaged

In 2012, the fund managers of the Kempen European Property funds continued their efforts to engage their portfolio companies on environmental performance. The team also decided to join the GRESB (Global Real Estate Sustainability Benchmark) initiative to stimulate further disclosure of sustainability efforts by property companies and to make peer comparison possible. GRESB is an initiative by the Maastricht University and two large Dutch pension funds with the goal to compare the sustainability efforts of real estate companies on a global level. It helps the Kempen Property team in its engagement efforts. In addition, one member of the Kempen Property team joined European Public Real Estate Association's (EPRA) sustainability board. EPRA acts to improve and coordinate European listed real estate's efforts on different topics including sustainability.

Capital Shopping Centres from the UK hired a dedicated sustainability officer to make sustainability improvements within their property portfolio. KCM has discussed the improvements they have made and further opportunities to reduce CO2 emissions. The company has taken its first steps, especially regarding lighting (both internal and external). KCM thinks it is positive the company hired someone who's internally responsible to make further structural improvements instead of hiring for example an external consultant.

Cofinimmo's sustainability efforts are more driven by necessity, as several tenants in Brussels (the European Commission and the European Parliament among others) demand Green office buildings.

Lastly, KCM invited Great Portland Estates to participate in the Global Real Estate Sustainability Benchmark (GRESB) survey. GRESB is a sustainability initiative set up by the university of Maastricht and PGGM. The purpose of the aforementioned survey is to benchmark property companies against each other on different sustainability parameters. For investors and GRESB members the outcomes of the survey provide useful insight on how well companies participating perform on sustainability, in absolute terms but also in comparison to their peers. By taking part in the survey Great Portland Estates contributes to making sustainability efforts by the European listed real estate universe more insightful.

3. Examples of individual engagement cases

In the previous chapter the focus was on the engagement by internal and external fund managers. In this chapter the focus is on direct engagement with the company by KCM/GES. As an example four engagement cases are given. This illustrates the type of cases KCM encounters and the progress that has been made.

During 2013 KCM/Van Lanschot will publish more information about all the engagement cases.

► 3.1 Examples of engagement cases

3.1.1 Archer Daniels Midland

Company	Sector	Action
United States	Food processing	Ivory Coast

Archer Daniels Midland (ADM) is a US based company focused on global food processing and commodities trading. The company has been linked to child labour in the cocoa sector.

Issue

For over ten years, the cocoa sector has been criticised for the alleged widespread use of child labour. An estimated 1.8 million children currently work in the cocoa sector. They often have to carry heavy loads, use dangerous tools such as machetes and are exposed to pesticides.

This chiefly involves children in the West African countries Ivory Coast, Ghana, Nigeria and Cameroon. According to the Tropical Commodity Coalition, these countries are responsible for 70% of cocoa bean production. Cocoa beans are grown by about six million smallholder farmers before they enter a complex production chain. In developing countries, children are allowed to perform light labour from the age of 12 and regular labour from the age of 14⁹. If the children are too young or are performing excessively heavy labour, this is earmarked as child labour. Child labour is a violation of principle 5 (on labour) of the UN Global Compact. It is also contrary to guideline V (on employment and industrial relations) of the OECD Guidelines for Multinational Enterprises.

Engagement

The engagement manager has challenged ADM on child labour since 2011. So far, ADM has taken the following steps to reduce its involvement with child labour:

- It has developed programmes for some of the farmers in its supply chain in order to increase production and productivity. As this increases farmers' earnings, the assumption is that it reduces the need for child labour. Yet it is unclear how many cocoa farmers are now participating in ADM programmes. In addition to the programmes, ADM also participates in initiatives developed by the cocoa industry.

⁹ ILO - Minimum Age Convention, 1973

Examples of individual engagement cases

- ADM is participating in an ILO/IPEC-partnership to combat child labour in the cacao sector in West Africa. The partnership has three objectives:
 - 1) To improve the knowledge of governments, social partners and cocoa farmers in order to combat the most serious forms of child labour.
 - 2) To support the development and expansion of a monitoring system for child labour.
 - 3) To improve the coordinatory role of national child labour committees.
- ADM is participating in a follow-up to the 2001 Harkin-Engel Protocol. This protocol, a public-private agreement between government representatives and 8 major chocolate companies, contains concrete initiatives to combat child labour in the cocoa sector. One of these initiatives was to create a standard for sector-wide certification for child labour-free cocoa. The successor to this protocol aims to have cut the most serious forms in the cocoa sector by 70% by 2020.

The objective of the engagement manager is that ADM draws up a clearer policy aimed specifically at child labour. In doing so, it can refer to ILO convention 182 relating to (serious forms of) child labour and the UN Convention of the Rights of the Child. This policy needs to be implemented into the supply chain and communicated both internally and externally. Furthermore, the company should structurally investigate its supply chain for direct or indirect involvement in child labour. It should also expand its programmes for farmers and increase its percentage of certified products. For instance, adding Fair Trade, UTZ Certified, EU Organic and/or Rainforest Alliance labels to more products. Furthermore, it should be more transparent about how it tackles the above objectives.

3.1.2 Rio Tinto PLC

Company	Sector	Action
Australia & UK	Metals & mining	Indonesia

Rio Tinto is a dual Australian and UK listed company active in finding, mining and processing the earth's mineral resources.

Issue

The company has been linked to involvement in severe environmental pollution due to mining operations at the gold and copper Grasberg mine in Papua province in Indonesia. The company is the influential partner (40%) of the operator Freeport McMoRan. Since 2006, Freeport has been accused by the Indonesian government and several non-governmental organisations of polluting the area around the mine by dumping mine wastes and acid rock drainage.

- **Dumping waste:** about 230,000 tons of ore are processed every day. About 3% of this contains copper and gold. The remaining 97% is waste which is discharged into local river systems and even reaches the Arafura sea, about 100km from the mine. The waste effects the river fauna and mangroves and has an impact on the native Kamoro population.
- **Acid rock drainage:** sulphur in the mine wastes forms sulphuric acid, which mobilises toxic heavy metals into the environment, impacting water quality and aquatic life.

Freeport's mine waste management practices at Grasberg pose a significant risk to this highly special and biodiverse part of Indonesia and the island of Papua, which includes the nearby Lorentz World Heritage site.

The mining practices are a violation of principles 7 and 9 of the UN Global Compact (on environment). The discharge of waste is also contrary to guideline VI (on environment) of the OECD Guidelines for Multinational Enterprises.

Examples of individual engagement cases

Engagement

The engagement manager has engaged Rio Tinto since 2008 and has had regular contact with the company on the subject. The company agrees that riverine tailings disposal has resulted in an altered ecosystem. However, Rio Tinto does defend the practice in its current form at the mine. In 2016 the mining process will change to underground operations, which will increase the likelihood of acid mine drainage.

Rio Tinto staff have regular input into environmental management matters at Grasberg, this includes:

- Involvement in different committees (for instance, twice a year a sustainability committee meets with Freeport), regular meetings and involvement with employees.
- It is working with Freeport on ways to control acid rock drainage from waste rock and tailings following the transition to underground mining operations at Grasberg in 2016.
- At the end of 2012 Rio Tinto updated and published their new standard on mine waste management. This means the company will now handle mine wastes at its new operations in the conventional low-impact way. At the Grasberg mine, Rio Tinto's obligation to achieve continuous improvement is now greater than under the old standard, however the existing waste disposal method will remain in place. Rio Tinto's new standard puts Freeport under significant pressure to adopt a similar position.

The objective of the engagement manager is that Rio Tinto:

- Takes a proactive approach in ensuring that the Grasberg operation implements the necessary measures to comply with internationally accepted standards for tailings management.
- Demonstrates that mine solution being deployed at Grasberg is not adversely impacting the environment.

3.1.3 Nestlé

Company	Sector	Action
Switzerland	Food products	Ghana

Swiss Nestlé is a nutrition, health and wellness company and has been linked to child labour in the cocoa sector.

Issue

For over ten years, the cocoa sector has been criticised for the alleged widespread use of child labour. An estimated 1.8 million children currently work in the cocoa sector. They often have to carry heavy loads, use dangerous tools such as machetes and are exposed to pesticides. This chiefly involves children in West African countries Ivory Coast, Ghana, Nigeria and Cameroon. According to the Tropical Commodity Coalition, these countries are responsible for 70% of cocoa bean production. Cocoa beans are grown by about six million smallholder farmers before they enter a complex supply chain. Nestlé mainly sources cocoa from Ivory Coast (73%) and Ghana (19%).

Examples of individual engagement cases

In developing countries, children are allowed to perform light labour from the age of 12 and regular labour from the age of 14¹⁰. If the children are too young or are performing excessively heavy labour, this is earmarked as child labour. Child labour is a violation of principle 5 (on labour) of the UN Global Compact. It is also contrary to guideline V (on employment and industrial relations) of the OECD Guidelines for Multinational Enterprises.

Engagement

The engagement manager has challenged Nestlé on child labour since 2009. So far, Nestlé has taken the following steps to reduce its involvement with child labour:

- In 2009 it set up the Nestlé Cocoa Plan, which is meant to improve productivity and livelihood for farmers in Nestlé's supply chain. With this programme the company was able to trace 12% of the cocoa beans in 2012 to groups of 25-30 farmers. Until now Nestlé has reached 12,500 farmers, and it aspires to reach 30,000 more farmers in the next five years.
- Nestlé participates in the Sustainable Tree Crops Program (STCP) that is set up by the World Cocoa Foundation (WCF) and the International Cocoa Foundation (ICI).
- Nestlé has started developing guidelines for its suppliers, especially farmers involved in high-risk products. Cocoa is one of those products. The guidelines are expected to be finished in 2012.
- Some of the Nestlé products are certified with a Fair Trade and UTZ Certified certificate. Nestlé wants more products to be certified, but it is not the company's main objective to get more products certified, because this does not imply that there is no child labour.
- Nestlé co-operates with the Fair Labour Association (FLA). The FLA is a non-profit initiative that works together with large companies to improve working conditions in the supply chain. In January 2012 independent experts travelled to Ivory Coast to review the Nestlé cocoa supply chain. The results were published in June 2012 and it showed that child labour is still a among the cocoa factories in Ivory Coast. This is the result of different aspects, such as poverty and social-economic situation of farmers and their families. Nestlé has set up an action plan as a response to the report, most notably it will increase its Nestlé Cocoa Plan to reach more farmers and it will track progress from some of the above-mentioned initiatives.

The objective of the engagement manager is that Nestlé:

- Demonstrates how its corporate policy addressing labour rights, including child labour, will be enforced with programs to ensure compliance with the standards in its cocoa supply chain.
- Demonstrates and reports on how it works to increase purchase of certified cocoa.

¹⁰ ILO – Minimum Age Convention, 1973

Examples of individual engagement cases

3.1.4 Astra International

Company	Sector	Action
Indonesia	Automobiles	Indonesia

Astra International is an international conglomerate, active in the auto industry, financial and agricultural sectors.

Issue

Astra International has been linked to the destruction of the natural habitat of the Sumatran orangutan. In 2007, subsidiary Astra Agro Lestari (AAL) bought the PT Surya Panen Subur palm oil plantation which lies along the edge of the Tripa peat swamp in Aceh (Indonesia). The Tripa swamp is part of the Leuser Ecosystem, famous for its unique biodiversity. Part of the Leuser Ecosystem is a UNESCO World Heritage Site.

AAL was subsequently accused by Greenpeace UK and Wetlands International of destroying the Tripa swamp. The palm oil activities mean that 21,000 hectares of Tripa swamp are allegedly felled annually. The NGOs have insisted that AAL ceases felling trees on the land and instead includes the area in the Leuser Ecosystem. The current practice affects the natural habitat of the Sumatran orangutan, which is facing extinction.

Engagement

The engagement manager has engaged AAL, Astra International and mother holding Jardine Matheson on the above issue since 2009.

- Initially, Jardine Matheson responded on behalf of Astra International and AAL. According to Jardine Matheson, the companies take environmental conservation seriously and operate in full compliance with laws and regulations in Indonesia. This includes environmental impact studies covering the impact on endangered species, such as the orang-utan. Furthermore, the companies indicate that they in fact support the environment, among other means via various programmes aimed at sustainable palm oil.
- The company's position is that all ALL plantations comply with the extensive laws and legislation in Indonesia. However, it cannot be confirmed that they have not violated these laws. There are indications that they have. The company claims that they conduct Environmental Impact Studies before the land is used for palm oil production. For instance, an impact study was conducted after AAL bought the 13,000-hectare PT Surya Panen Subur plantation in 2007. As a result of this, AAL decided only to use half of the total number of hectares. This cannot be confirmed by GES because the company has refused to make the environmental impact assessment public or share it with GES.
- AAL claims to adhere to a strict no-burning policy (clearing the forest by burning in order to make it suitable for palm oil production is prohibited). Moreover, regular drills are held to prevent forest fires, awareness is stimulated among locals and it holds classes.
- AAL publishes an annual Sustainability Report and ALL claims it uses as many environmentally-friendly production methods as possible in all phases of the production process. A periodic assessment of its subsidiaries forms part of this.

The PT Surya Panen Subur palm oil plantation was sold in October 2010 and AAL ceased to directly violate the UN Global Compact and related conventions. It is still unclear, however, whether the concession was sold in a responsible fashion, as the conditions of sale were not made public. Although the concession has been sold, Astra International still needs to take steps relating to its other subsidiaries.

Examples of individual engagement cases

The objective of the continued engagement is that Astra:

- Conducts Environmental Impact Assessments at all its palm oil concessions and makes this information public.
- Becomes a member of the Roundtable on Sustainable Palm Oil (RSPO). RSPO promotes and verifies sustainable palm oil production worldwide.
- Has all its plantations certified, preferably under the RSPO certification system.
- Makes clear in its policy the timeframe within which all its subsidiaries will work according to sustainable palm oil guidelines. This includes guidelines and criteria applied by RSPO, e.g. relating to High Conservation Value Forest (HCVF).
- Improves dialogue with shareholders.
- Addresses the concerns of NGOs.

4. Voting

The execution of voting rights is an important part of a well-functioning corporate governance system. KCM takes its fiduciary responsibility by voting at shareholder meetings for its own funds and for discretionary mandates at the client's request. KCM has adopted voting policies and procedures that serve as a guideline for voting decisions. The overriding principle behind KCM's governance activity, including voting and engagement, is to protect shareholder value and enhance clients' returns. The aim is to have open and transparent voting practices for clients. To assist with the voting policies and procedures KCM adheres to the Dutch Corporate Governance Code and the UK Stewardship Code and furthermore it strives to align itself with initiatives such as Eumedion¹¹ best practices.

The Dutch Corporate Governance Code formulates the principles for ethical company management and includes best practices. It focuses on a number of provisions on the responsibilities held by institutional investors; specifically it comprises 21 principles which are worked out in more detail in 113 best practices. KCM believes that the Dutch Corporate Governance Code can contribute to restoring faith in capital markets and can therefore lead to a higher shareholder value.

► 4.1 Voting policy

KCM votes wherever possible and where KCM has been given discretion by clients. In exercising voting authority, KCM endeavours to implement best practices and follow the relevant applicable regulatory and legislative requirements, both in the Netherlands and other jurisdictions in which KCM has investments.

KCM uses independent governance research and voting advice from a specialist international proxy advisor. KCM exercises votes and where applicable intervenes in an objective and informed way. In the case of controversial or important agenda items, the KCM portfolio manager involved can be consulted to discuss the vote. Based on the information provided by the proxy advisor KCM ultimately decides how to vote at a meeting.

► 4.2 Voting process

KCM's voting process consists of proxy voting and voting at Annual General Meetings (AGM's).

4.2.1 Proxy voting

KCM currently votes at many shareholder meetings around the world. To avoid unnecessary costs and to increase the efficiency of the voting services in the interests of clients, KCM uses an electronic voting platform. This platform is used to vote at most meetings and is referred to as proxy voting.

The proxy advisor provides for almost all companies a summary of the resolutions put forward at the AGM's and/or Extraordinary General Meetings (EGM). This includes an assessment of the extent to which the resolutions are in line with best practices. KCM can execute the votes as proposed by the proxy advisor and is able to deviate from the proposed vote.

The reports from the proxy advisor highlight key issues for discussion with management at company meetings. Portfolio managers can be provided with recommendations on company governance prior to company meetings.

¹¹ Eumedion represents institutional investors' interests in the field of corporate governance and related sustainability performance. For more information see: www.eumedion.nl.

Voting

4.2.2 Voting at AGM's

KCM can actively exercise voting rights at an AGM for relatively large positions or from a Corporate Social Responsibility (CSR) perspective.

Active voting for relatively large positions

KCM will consider to actively exercise its voting rights if a KCM managed investment company holds at least 5% of the outstanding share capital in a company. In these instances, voting rights will be exercised following individual assessment of the agenda points.

If an investment company holds less than 5% of the outstanding share capital, marginal testing of the AGM's agenda will be deemed sufficient and subsequently voting rights may or may not be exercised.

Active voting from a CSR perspective

KCM has contracted GES to provide responsible investment solutions. The research and service provider performs a screening on the holdings of investment companies, reports the results to the portfolio managers and may advice upon voting issues. The screening of GES is based on the framework of the United Nations Global Compact¹⁶ and the interpretations of international conventions on environment, human rights and business ethics.

When evaluating voting issues relating to CSR, international law and agreements provide useful standards. Votes on social responsibility issues differ from those on corporate governance issues. Therefore, internal voting guidelines are in place to address this area, by identifying a set of internationally accepted standards and norms against which to assess CSR proposals.

► 4.3 Voting summary of 2012

Below the proxy voting of the following funds is indicated:

Kempen Best Selection European Property Fund
 Kempen European Property Fundamental Index® Fund
 Kempen European Dividend Fund
 Kempen European High Dividend Fund

Kempen Global High Dividend Fund
 Kempen European Participations
 Kempen European Smallcap Fund
 Kempen Sense Fund N.V.

Country	Total Number of Meetings Voted	Number of Meetings Voted Against Management or Abstained	Total Number of Resolutions Voted
Australia	5	1	32
Austria	5	2	42
Belgium	7	5	89
Bermuda	1	1	7
Denmark	3	1	41
Finland	9	2	109
France	8	8	106
Germany	19	4	169
Greece	4	3	25
Hong Kong	6	3	56
Ireland	1	0	19
Israel	2	0	13
Italy	9	7	58
Japan	5	1	58
Jersey	1	0	5
Luxembourg	1	1	18
Malta	1	0	16
Netherlands	14	4	123
Norway	1	1	8
Poland	3	1	34
Singapore	2	2	8
South Africa	2	1	29
Spain	3	2	47
Sweden	18	5	295
Switzerland	15	5	148
Turkey	1	0	3
United Kingdom	51	10	893
	197	70	2451

Appendix I: Key Figures

	2012	2011
Number of meetings ESG Council	4	4
Number of asset managers engaged ¹	14	17
Number of engagement meetings ¹	27	33
Number of engage issues	45	49
Number of exclude issues	0	1
Number of closed cases	4	7
Number of excluded companies	13	13
Asset Under Management KCM (Responsible, in mln) ²	9,377	7,636
Asset Under Management Total Funds ³	34,846	25,971
% coverage active equity funds ⁴	100%	100%
% coverage active real estate funds ⁵	100%	100%
% coverage internal funds ⁶	69%	71%
% coverage total funds ⁷	61%	54%

¹ The 2011 number has been revised.

² Assets Under Management that are part of the Responsible Investment Solution.

³ The total assets of both internal and external investment funds that are part of the Responsible Investment Solution.

⁴ All selected active equity funds are part of the Responsible Investment Solution.

⁵ All selected active real estate funds are part of the Responsible Investment Solution.

⁶ % of internal funds that are part of the Responsible Investment Solution.

⁷ % of total selected funds that are part of the Sustainable Investment Solution. The percentage for 2010 decreased compared to 2009 due to the addition of the number of selected funds in other asset classes.

Appendix II: Screening criteria responsible investments

GES Investment Services screens KCM's investments. They check if companies adhere to international conventions and treaties. Below you will find the list of conventions and treaties. It is essential that companies/funds follow all these conventions and treaties. If that is not the case then an engagement strategy is initiated.

► Labour

1. ILO – Abolition of forced labour Convention, 1957/130 *
2. ILO – Discrimination (Employment and Occupation), 1985 *
3. ILO – Equal Remuneration Convention, 1951 *
4. ILO – Freedom of Association and Protection of the Right to Organise Conventions, 1948 *
5. ILO – Hours of work Convention, 1990/130
6. ILO – Minimum Wage Fixing Convention, 1970
7. ILO – Minimum Age Convention, 1973 *
8. ILO – Occupational Safety and Health Convention, 1981
9. ILO – Prevention of Major Industrial Accidents Conventions, 1993
10. ILO – Right to Organize and Collective Bargaining Convention, 1949 *
11. ILO – Worst Forms of Child Labour Convention, 1991 *
12. ILO – Termination of Employment Convention, 1982

► Human Rights

13. ILO – Indigenous and Tribal Peoples Convention, 1989
14. Basic Principles on the Use of Force and Firearms by Law Enforcement Officials, 1990
15. Code of Conduct for Law Enforcement Officials, 1979
16. Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, 1984 *
17. Convention on the Rights of the Child, 1989 *
18. General Assembly Resolution (XVII) of 14 December 1962, "Permanent Sovereignty over Natural Resources"
19. Geneva Convention relative to the Treatment of Prisoners of War, 1949 *
20. Geneva Convention relative to the Protection of Civilian Persons in Time of War, 1949 *
21. International Covenant on Civil and Political Rights, 1966 *
22. International Covenant on Economic, Social and Cultural Rights, 1966 *
23. Convention on the Elimination of all Forms of Racial Discrimination, 1965 *
24. Convention on the Elimination of all Forms of Discrimination against Women, 1979 *
25. International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, 1990 *
26. UN convention relating to the Status of Refugees, 1951
27. First Additional Protocol to the Geneva Convention, relating to the Protection of Victims of International Armed Conflicts, 1977 *
28. The Hague Convention, 1907 *
29. UN Declaration on the Rights of Indigenous Peoples, 2007

30. The Universal Declaration of Human Rights, 1948

► Environment

31. Basel Convention on the Control of Transboundary Movements of Hazardous Wastes, 1989
32. Convention for the Protection of the Marine Environment of the North-East Atlantic, 1998
33. Convention on Biological Diversity, 1992 *
34. The Stockholm Convention on Persistent Organic Pollutants, 2001
35. The Cartagena Protocol on Biosafety, 2000
36. Kyoto Protocol to the United Nations Framework on Climate Change, 1992 *
37. The Montreal Protocol on Substance that Deplete the Ozone Layer, 1985
38. The United Nations Framework Convention on Climate Change, 1992 *
39. Vienna Convention for the Protection of the Ozone Layer, 1985
40. International Convention on Oil Pollution Preparedness, Response and Cooperation, 1990
41. UN Rotterdam Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade, 2004
42. UN Stockholm Declaration on the Human Environment, 1972
43. UN Convention on the Law of the Sea, 1982
44. The Convention on Long-range Transboundary Air Pollution, 1979
45. Convention on the Protection and Use of Transboundary Watercourses and International Lakes, 1992

► Corruption and bribery

46. United Nations Convention against Corruption, 2003 *
47. OECD Anti-bribery Convention, 1997

► Arms/Weapons

48. Convention on the Prohibition of the Use, Stockpiling, Production and Transfer or Anti-Personnel Mines and on Their Destruction, 1997 *
49. Treaty on the Non-Proliferation of Nuclear Weapons, 1968 *
50. Convention on the Prohibition of Development, Production, Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction, 1972 *
51. Convention on Certain Conventional Weapons (CCW), 1980 *
52. Chemical Weapons Convention (CWC), 1993 *
53. Convention on Cluster Munitions, 2008 *

► Pornography

- 54. Optional Protocol to the Convention of the Rights of the Child on the sale of children, child pornography and child prostitution, 2000

► Nuclear Energy

- 55. Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management, 1997
- 56. The Convention on Nuclear Safety, 1994

Animal Welfare (including fur and animal testing)

- 57. European Convention on the Protection of animals Kept for Farming Purposes, 1976
- 58. European Convention for the Protection of Vertebrate Animals used for Experimental and Other Scientific Purposes

► Tobacco

- 59. The WHO Framework Convention on Tobacco Control and the Tobacco Industry, 2003

Periodically the ESG Council decides which of the 59 conventions and treaties are essential. The decision is based on the United Nations Global Compact; conventions are essential if they are explicitly mentioned in the UN Global Compact or if the theme of the convention is explicitly mentioned in the UN Global Compact.

The 27 essential conventions and treaties in the abovementioned list are indicated with a *.