

# ANNUAL SUSTAINABILITY REPORT 2009



KEMPEN CAPITAL MANAGEMENT



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# 1. INTRODUCTION



In 2006 the Secretary General of the United Nations invited some of the largest institutional investors worldwide to develop an international framework that supports investors in their policies with regard to ESG (Environmental, Social and Governance) criteria. This has resulted in the Principles for Responsible Investments (PRI).

In 2008 Kempen Capital Management (KCM) signed the PRI and has launched a sustainable investment solution based on engagement both with companies and the investment funds in which we invest. KCM is the asset manager of F. Van Lanschot Bankiers N.V. (Van Lanschot). Van Lanschot signed the PRI in 2009 and committed herself to cooperate with KCM on the development of the ESG-solution for its private clients.

As a signatory of the PRI, KCM is committed to report the progress made in implementing the PRI. Through this annual report we are delighted to be able to do so, thereby contributing to a more sustainable investment policy.

Since 2008 KCM has been a signatory to the United Nations Global Compact, and we express our continued support for the ten universal principles of the UN Global Compact in respect of human rights, labour standards, the environment and anti-corruption.

KCM has established a partnership with GES Investment Services (GES), a leading Swedish research and service provider for responsible investors, to provide sustainable investment solutions. GES screens the investment funds on the basis of the criteria of the UN Global Compact and enters into an active dialogue with the fund managers.

To evaluate the outcome of the engagement process, KCM has set up an ESG Council, which consists of -next to KCM employees- representatives of GES and ECCE (European Centre for Corporate Engagement, University of Maastricht).

In this report we will describe our engagement process in detail. KCM is convinced that engagement is the most effective way to actively monitor and manage our investments on ESG criteria. In this annual report we will report the progress made on a range of ESG issues that have been identified and pro-actively solved with various fund managers.

Although we focus on engagement as our primary tool for providing sustainable investment solutions, we also foresee that at times we will have to conclude that the outlook for a positive outcome of the engagement process is poor. This will mean that we will have to put some companies on an exclusion list. This list is then also communicated to the investment funds in which KCM invests. This list is also part of this report.

Engagement is an ongoing process. We are aware of the fact that it can take considerable time to obtain the desirable results. Therefore it is an essential part of any engagement strategy to disclose the results reached.

KCM reports the results of the assessment of its engagement activities to its clients on a quarterly basis. In this annual report we will highlight the progress made of our engagement strategy during the past year, thereby contributing to a more sustainable investment portfolio of our clients.

In 2010 we will increase the number of investment funds engaged. We already engage on the funds where our clients currently invest in, we will also review all investment funds on our approved list. Currently, our engagement process focuses on equity funds only. In 2010 we will review our own real estate fund. Furthermore we will start reviewing credit funds, thereby expanding into the fixed income area.

*Frans Mahieu*  
*Chairman ESG Council*



## 2. ESG PROCESS

### ■ AN INTEGRATED PROCESS

KCM is the asset management division of Kempen & Co, the merchant bank which is part of Van Lanschot Bankiers. KCM is a specialised investment manager.

Sustainable investing is a focus of our attention. Increasingly, the way investment results are achieved have to be aligned to sustainability criteria. Our Sustainability strategy is based on ESG criteria.

The proposition that we have developed is based on specialization and active dialogue. Signing the PRI underlines our ambition to implement an active and involved relationship with our investment managers on ESG.

### ■ THE SUSTAINABLE INVESTMENT SOLUTION OF KCM

#### *Financial return comes first*

KCM believes in focus. We concentrate first and foremost on the financial returns of our mutual funds and client solutions. To give sustainable investing a central and solid foundation we have chosen for the process of engagement, where financial criteria hold the highest priority. To maintain this focus and to ensure that our sustainable assessment is validated by an independent party, KCM chooses a partnership with an external party, the engagement manager. We have selected GES as independent engagement manager.

KCM selects asset managers mainly on financial criteria. GES assesses these managers according to sustainability criteria and then reports these results to KCM and its relations.

#### *Engagement Manager: the best results in the long term*

As independent engagement manager, GES brings expertise within reach of KCM by having access to extensive databases, keeping close track of trends/events in the market and reports on these issues. Similar to sustainable investments, ethical views can also be subject to change. The criteria for exclusion of certain investments today may not be the same as tomorrow. This is where GES ensures that we are at the forefront of the most recent developments.

### ■ ACTIVE OWNERSHIP THROUGH OUR SPECIALISED ENGAGEMENT MANAGER POLICY

KCM has opted for the most far-reaching and intensive implementation form of sustainable investing. Engagement is based on a dialogue to initiate change in organisations. This approach assumes that companies know they are actively monitored by investors make more effort to improve their performance in terms of ESG criteria. In order to efficiently implement our policy we have selected GES as independent engagement manager.

Our partnership with GES offers the possibility of bringing about change in companies. This way, KCM contributes actively to the improvement of corporate governance and increasing awareness of sustainability.



#### *Objective and professional screening*

The assessment of sustainability by GES is objective and independent. GES performs a screening on the investment funds managed by KCM as well as by external investment managers. GES reports the results to KCM and the external investment managers. In this process all investment funds are assessed equally.

#### *Dialogue contributes to the improvement of sustainability*

As KCM has established a partnership with GES, KCM is actively involved in a constructive dialogue with the fund managers which we invest in on behalf of our clients.

GES has direct 'engagement meetings' with fund managers who in return speak with management of the companies in which they invest. By holding large positions they can exert influence on the companies. The goal of these meetings is to improve corporate governance and to increase awareness of sustainable investing.

## ■ INTERNATIONAL NORMS AND VALUES

KCM has chosen to use international norms and values as the basis for its engagement efforts. The framework of the UN Global Compact and the interpretations of international conventions on environment, human rights and business ethics form the basis for assessment.

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption. KCM supports these principles and associated conventions and guidelines.

### THE TEN PRINCIPLES OF UN GLOBAL COMPACT:

#### Human Rights

**Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and

**Principle 2:** make sure that they are not complicit in human rights abuses.

#### Labour Standards

**Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

**Principle 4:** the elimination of all forms of forced and compulsory labour;

**Principle 5:** the effective abolition of child labour; and

**Principle 6:** the elimination of discrimination in respect of employment and occupation.

#### Environment

**Principle 7:** Businesses should support a precautionary approach to environmental challenges;

**Principle 8:** undertake initiatives to promote greater environmental responsibility; and

**Principle 9:** encourage the development and diffusion of environmentally friendly technologies.



## Anti-Corruption

**Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

KCM, supported by GES, distinguishes two types of screening results: Observations and Engage or Exclude Issues.

- Observations are reports from the media, a non-governmental organization or an ongoing official investigation signalling potential violations of global norms by a company. GES has not completed their research on the topic yet.
- Engage or Exclude Issues are considered by GES to be serious violations of Global Norms. GES has been able to verify the existence of the violation through reports of an official body (e.g. UN Observer), sanctions against the company issued by a regional/national court or because the company admitted responsibility.

Fund Managers are expected to follow up on Engage or Exclude Issues in six months and on Observations in twelve months.

We are convinced that focus on engagement based on this framework in the long term will lead to the best results for our clients. However, the impact of engagement for some companies is limited. Take for instance defense companies. They are highly dependent and closely linked to their national defense departments. The general outlook for results from engagement is therefore limited. The ESG Council decides what companies of the Engage or Exclude list will be excluded. Currently these companies are:

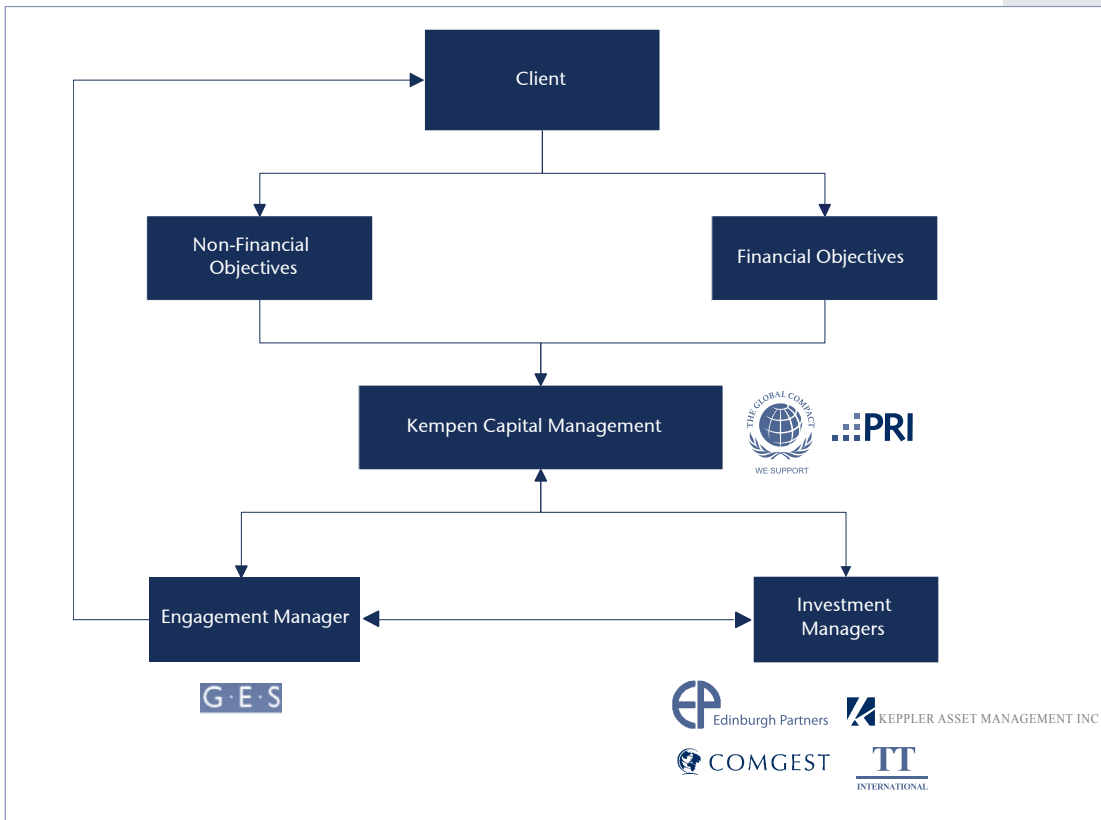
- Alliant Techsystems,
- GenCorp US,
- General Dynamics,
- Hanwha Corp,
- L-3 Communications,
- Lockheed Martin,
- Poongsan Corp,
- Raytheon,
- Singapore Technologies Engineering, and
- Textron.

Funds that choose to maintain investments in companies on our exclusion list will ultimately lose their eligibility for KCM and Van Lanschot client portfolios. Results of the Engagement Meetings will be monitored on a quarterly basis by the KCM ESG Council that advises the investment committee of KCM.



## ■ THE SELECTION PROCESS

The figure below displays how the selection procedure works. KCM selects external asset managers where the engagement manager then assesses the fund managers on the basis of sustainability criteria primarily based on the UN Global Compact and subsequently reports the results to KCM.



### *Engagement by Kempen Capital Management focuses on equity mutual funds*

Equities are the most applicable investment category for sustainability criteria. The shareholder owns a part of the organisation and is, therefore, ultimately responsible for the company. Moreover, shareholders can use their voting right.

Also investors in equity mutual funds have the possibility to exert influence through dialogue with fund managers. The fund managers are active as shareholders and often have contact with the management of companies. KCM is in dialogue with the fund managers through the Engagement Manager.

### *ESG Council*

The ESG Council has been set up to monitor the results of this process and keep up with trends in this expertise area. This council is responsible for the monitoring of the engagement results of GES. The Council consists of Magnus Furugård from GES, Rob Bauer from ECCE and internal specialists of KCM and Van Lanschot (Frans Mahieu (Chairman), Karen McGrath, Reinoud van Ieperen Bokhorst, Almar Rietberg, Hans Kempen and Bas Haasnoot (Secretary)).

ECCE is a research consortium established by experts from the University of Maastricht and the RSM Erasmus University.



### 3. FUND MANAGERS SCREENED AND ENGAGED

In 2009 investment funds that are part of client portfolios at Van Lanschot Bankiers and Kempen Capital Management (KCM) have been screened at each quarter end. By the fourth quarter the list of funds to be screened comprised of 32 investment funds.

Engagement meetings have been held with internal portfolio managers of KCM and with the following external asset managers:

- Aberdeen Asset Management (Aberdeen Global – Asia Pacific Equity Fund)
- Edinburgh Partners (Edinburgh Partners Global Opportunities Fund and Edinburgh Partners European Opportunities Fund)
- TT International (TT European Equity Fund)
- Calamos Investments (Calamos Global Funds – Growth Fund)
- NWQ Investment Management (Nuveen NWQ Large-Cap Value Fund)
- Cullen Capital Management (Pioneer Funds – North American Basic Value Fund)
- Comgest Far East Limited (Comgest Panda)
- Comgest Asset Management International (Comgest Growth – Emerging Markets)

Since the engagement process allows the portfolio managers a six month period to follow up on the issues discussed at the engagement meeting it is too early to conclude whether or not a fund management organization will cooperate with our effort to engage on ESG issues.

#### **Kempen Capital Management**

It has been our priority to ensure that all equity funds managed by Kempen Capital Management integrate ESG in their investment process. The internally managed equity portfolios have been screened by GES and recommended company engagement activities have been established.

More specifically, the Kempen European Small Cap Fund holds an investment in the British currency printing company De La Rue that is accused of corrupt practices in Kenya. KCM followed up with the company and has received satisfactory information on the company's corruption prevention systems.

The Kempen Global High Dividend Fund has been invested in US oil company Chevron Corporation that is associated with environmental damage in the Amazon jungle. Since the company denies responsibility for released toxins the Kempen Global High Dividend Fund sold the stock in July/August. Other companies with which the Kempen Global High Dividend Fund is in active dialogue are Unilever and BAT.

Equity funds managed by KCM do not have any exposure to securities issued by companies on our Exclusion list.

#### **Aberdeen Asset Management**

We have discussed Rio Tinto, associated to severe environmental damage in Indonesia, and Singapore Technologies Engineering (STE) that is on our Exclusion List. Aberdeen has raised the issue with Rio Tinto and awaits the response of the company. With respect to STE, KCM has subsequently written a letter to Aberdeen Asset Management to express our concern and to make clear that we aim to exclude the company from client portfolios before the end of April 2010. Aberdeen Asset Management is actively discussing the matter with corporate executives of STE.

#### **Edinburgh Partners**

We have discussed Unilever, accused of anti-union practices at subsidiaries, ENI, associated to inadequate clean-up of a major oil spill, and General Dynamics that is on our Exclusion List.





Edinburgh Partners is following up with the respective companies. Because General Dynamics was added to our Exclusion List by the end of December, we will discuss the position of Edinburgh Partners within the ESG Council.

#### **TT International**

We have discussed Alstom SA, associated to human rights violations in Sudan, BAE Systems, associated to corruption in Saudi Arabia, Rio Tinto (see above) and Unilever (see above).

TT International had already identified the issues at Alstom and BAE. It had subsequently divested from BAE but felt it had received sufficient information from Alstom to maintain the position. We agreed that we will share the information on Alstom and revisit the situation in Q2 of 2010. In the meantime TT International has followed up with Alstom and Rio Tinto to verify their activities.

#### **Calamos Investments**

We have discussed Barrick Gold, association to environmental damage in Papua New Guinea, Ebay, associated to human rights violations in China, and Starbucks, accused of labour rights violations in the US, and General Dynamics (see above). The engagement meeting added to the decision made by Calamos to divest from General Dynamics. Furthermore, Calamos has taken up the environmental issue with Barrick Gold and will share information with KCM in the second quarter of 2010. Calamos will express concerns about the allegations with respect to Ebay and Starbucks to the respective companies. However, Calamos understands our concerns and pointed out that the number of complaints are normal and typical of firms that have thousands of employees.

#### **NWQ Investment Management**

We have discussed Kraft Foods, associated to labour rights violations in Africa, Philip Morris, associated to misleading marketing in Nigeria, The Mosaic Company, accused of illegal exploitation of natural resources in Africa, Lockheed Martin that is on our Exclusion List and Barrick Gold (see above).

NWQ Senior Management visited us in our offices to discuss the issues we brought forward; they appreciate the opportunity to work with us on these issues. They believe there are regulatory and registration requirements that they must satisfy in order to have the ability to incorporate ESG issues in their Fund. We await further response in the first quarter of 2010.

#### **Cullen Capital Management**

We have discussed ABB, associated to corruption in various countries, Nestle, associated to labour rights violations in Africa, Kraft Foods (see above) and Unilever (see above).

Cullen Capital Management welcomed the additional information we provided to them. The portfolio manager takes the view that companies that maltreat any of their stakeholders may equally disadvantage its shareholders. Therefore he will raise the issues at meetings with managers of the companies we referred to and re-assess the investments based on the responses.

#### **Comgest S.A. and Comgest Asset Management International**

We have discussed Rushydro, associated with a labour rights violation in Russia. Comgest investigated the matter even before we brought it forward. The portfolio manager was unpleasantly surprised by the information and is currently assessing the economic impact. We will revisit the matter in the second quarter of 2010. Furthermore Comgest is in the process to establish a written ESG policy that they will share with us as soon as it is ready.



## 4. CASES

In this section a number of engagement cases is highlighted as an illustration of the type of cases we encountered and the progress that has been made.

We distinct four type of cases.

- 1) Closed: cases where the issue has been solved by the company or the issue is not verifiable;
- 2) Observation: cases under investigation by GES, in the status of fact finding and first dialogue with companies;
- 3) Engage/Exclude: 'proved' cases where GES advises to either engage or exclude the company;
- 4) Divested: cases where the fund manager has decided to divest the company.

### ■ CLOSED CASES

#### PETROCHINA

Domicile	Sector	Country	Area	Status
China	Oil & Gas	China		

**Incident** Association to inadequate safety procedures causing chemical contamination.

**Process Goal** To ensure that PetroChina has adopted adequate polices and programs in environmental management, and that it has acted responsible in the cleaning-up process after the accident.

**Conclusion** In accordance with common practice in China, PetroChina has paid for the remediation, whereas the actual clean-up has been executed by Chinese authorities. The Chinese cooperate with Russia to curb industrial pollution in the area, and the ADB has designed and financed a program for both chronic and toxic pollution. Hence, the mitigation process following the accident has been incorporated into a comprehensive clean-up program for the entire Songhua River basin, which is financially and technically supported by the ADB. Since 2006, PetroChina has implemented a new HSE management system and released its first and second CSR Reports, including information on HSE efforts undertaken during the year, and goals and action plans for the upcoming period. GES therefore concludes that PetroChina has fulfilled the revision criteria.



**CHEVRON CORP**

Domicile	Sector	Country	Area	Status
United States	Oil & Gas	Nigeria		

**Incident** Association to complicity in human rights abuses by security forces.

**Process Goal** Chevron must provide information on how the Voluntary Principles on Security and Human Rights have been implemented and communicated in Nigerian operations.

**Conclusion** Chevron has implemented the Voluntary Principles on Security and Human Rights (VPs) in its Nigerian operations. The company has described how the principles have been disseminated through trainings and seminars among security personnel. It has been confirmed by the secretariat for the VPs that Chevron shows a high level of commitment to the implementation of the principles.

**ANGLO AMERICAN**

Domicile	Sector	Country	Area	Status
United Kingdom	Basic Resources	Ghana		

**Incident** Association to environmental pollution and social problems.

**Process Goal** Ensure that long term sustainable processes for managing environmental and social risks are in place and verify that these are approved by local communities.

**Conclusion** The company adheres to best practice by implementing the Voluntary Principles on Security and Human Rights (VPs). Moreover, the company shows that it addresses the security situation in a responsible manner, by addressing the root causes. GES deems that the company is acting responsibly and proactively and therefore, the case will be archived.

**Legend:**

**Problem areas:**



Environment



Labour Rights



Human Rights



Corruption



Weapons

**Status:**



Excellent progress



Good progress



Standard progress



Poor progress



No progress



## PFIZER

Domicile	Sector	Country	Area	Status
United States	Health Care	Nigeria		

**Incident** Association to unauthorized drug testing on children.



**Process Goal** To secure that the company acts responsibly with regard to the alleged incident in Nigeria and that policies and management systems concerning drug testing in less regulated countries are robust.

**Conclusion** Early in 2009, Pfizer has agreed to settle a multi-million dollar case with 200 alleged victims of the drugs trial in Kano, Nigeria. The reported practice can be associated with a violation of the UN Global Compact Principle 2 on human rights and corresponding Guideline 2 of the OECD Guidelines for Multinational Enterprises.

A settlement between Pfizer and the plaintiffs have been reached and GES Investment Services therefore will no longer pursue the case.

## ■ OBSERVATION CASES

### UNILEVER PLC

Domicile	Sector	Country	Area	Status
Netherlands	Food & Beverage	Pakistan		

**Incident** Association to labour rights violations.

**Process goal** To secure that the company acts responsibly with regard to the alleged incident in Pakistan and ensure that internationally proclaimed human rights are respected within Unilever's sphere of influence.

**Comment** In March 2009, Uniting Food, Farm and Hotel Workers World-Wide (IUF) reported on poor employment conditions at Unilever's Lipton/Brooke Bond tea factory in Khanewal, Pakistan. The factory employs some 750 workers to package tea, but only 22 are employed directly by Unilever. The remaining 723 are employed by six labour hire agencies on a "no work, no pay" basis. Allegedly, they get no pension, no benefits, receive one-third of the pay of that the permanent workers receive and cannot join the union which negotiates pay and conditions with Unilever. In February 2009, the factory workers held a demonstration to protect their labour rights. IUF reports that in response to this, agency workers have been beaten by labour contractors, locked in the factory without food or water and threatened with loss of



work. The IUF has also made a complaint to the OECD’s national contact point in the UK on this issue. Unilever has stated that they are in dialogue with both the IUF and OECD’s national contact point. The reported practices can be associated to a violation of the UN Global Compact Principle 1 addressing human rights and the corresponding Guideline 4:4 of the OECD Guidelines for Multinational Enterprises. However, GES Investment Services deems it premature to issue the recommendation Engage/Exclude in this case because further analysis is required in order to determine the severity of the situation.

### ERICSSON

Domicile	Sector	Country	Area	Status
Sweden	Technology	Bangladesh		→

**Incident** Association to poor working conditions at suppliers

**Process goal** Ensure that company acts responsible to the alleged incident in Bangladesh and that internationally proclaimed human rights are respected.

**Comment** In May 2008, a Danish TV documentary revealed child labour, poor working conditions and environmental pollution at the factories of Ericsson’s contractors in Bangladesh. The documentary showed workers galvanising mobile phone masts in vats of molten zinc up to 460 degrees Celsius, without proper protective clothing; child workers as young as 14; and untreated waste water being released onto local farmland, damaging crops. The reported practices can be associated to a violation of the UN Global Compact Principles 1 and 7, addressing working conditions and the environment, as well the corresponding Guidelines 4 and 5 of the OECD Guidelines for Multinational Enterprises. However, GES Investment Services cannot at this point issue the recommendation Engage/Exclude in this case because the company has reacted promptly to the situation and shown commitment to act responsibly. Hence, GES Investment Services has decided to keep the developments under observation.

#### Legend:

##### Problem areas:



Environment



Labour Rights



Human Rights



Corruption



Weapons

##### Status:



Excellent progress



Good progress



Standard progress



Poor progress



No progress





### STARBUCKS CORP

Domicile	Sector	Country	Area	Status
United States	Retail	United States		

- Incident** Association to anti-union practices.
- Process goal** To secure that the company has effective management systems to secure that it respects the international conventions on freedom of association and the right to collective bargaining in the company organization.
- Comment** In December 2008, the National Labor Relations Board has ruled that Starbucks illegally fired three baristas and otherwise violated federal labour laws in seeking to obstruct unionization efforts at some of its cafes. Reportedly the judge found that Starbucks had also broken the law by issuing negative job evaluations to union supporters and prohibiting employees from discussing the union. Starbucks has stated that they are disappointed with the decision and intend to appeal the ruling. Starbucks has in recent years been involved in several labour rights incidents, often concerning allegations of anti-union practices. The reported practices can be associated to a violation of the UN Global Compact Principle 3 on labour standards and the OECD Guidelines for Multinational Enterprises, Guideline 4 on employment. However, GES Investment Services deems it premature to issue the recommendation Engage/Exclude in this case because further analysis is required in order to determine the severity of the situation.

### NESTLÉ

Domicile	Sector	Country	Area	Status
Switzerland	Food & Beverage	Ghana		

- Incident** Association to child labour in cocoa harvesting.
- Process goal** Ensure that company acts responsible to the alleged incident in Ghana and Ivory Coast and that internationally proclaimed human rights are respected.
- Comment** In April 2009, Swedwatch released a follow-up report on the situation at the cocoa plantations in Ghana and the Ivory Coast. In 2006, Swedwatch reported on violations of several human rights and labour rights such as, child labour, forced labour, torture and poor working conditions at the cocoa plantations. There have been several initiatives to bring about a change to the situation and to introduce control systems, for example the International Cocoa Initiative (ICI) that has both chocolate producers, including Nestlé, and different NGOs as members. ICI set a deadline to have a system in place by July 2005. This deadline was



prolonged to July 2008, but according to Swedwatch, Nestlé has still not established a control system. The reported practices can be associated to a violation of the UN Global Compact Principle 5 addressing child labour and the corresponding Guideline 4 of the OECD Guidelines for Multinational Enterprises. However, GES Investment Services deems it premature to issue the recommendation Engage/Exclude in this case due to lack of official documentation proving the company's responsibility for the alleged violation.

## ■ ENGAGE / EXCLUDE

### RIO TINTO LTD

Domicile	Sector	Country	Area	Status
Australia	Basic Resources	Indonesia		

**Incident** Association to environmental damage caused by mining activities.

**Process goal** Rio Tinto should demonstrate a strongly proactive approach in ensuring that the Grasberg operations implements the necessary measures to comply with internationally accepted standards for tailings management. The company should demonstrate that adequate management measures are in place for acid drainage from tailings and overburden.

**Comment** Rio Tinto is a long-term influential partner in the Freeport McMoRan (Freeport) owned Grasberg mine in Papua, Indonesia. The mine has been subject to criticism due to the nature and scale of environmental impacts, in particular riverine tailings disposal, which is regarded as unacceptable by most national regulators, the World Bank and the broader mining community. The practice is particularly inappropriate in such a highly biodiverse environment. Rio Tinto's involvement has been assessed as one which exacerbates the environmental damage caused by the Freeport established operation, due to the doubling of production facilitated by Rio Tinto's involvement, and the company's adherence to the riverine tailings disposal practice. The reported practices can be associated to violation of the UN Global Compact Principles 7 and 9 on environment, and the corresponding guidelines 2 and 5 of the OECD Guidelines for Multinational Enterprises. Therefore, GES Investment Services recommends its clients to engage in dialogue and/or active ownership with the company, or as an alternative, to exclude the company from their investment universe.

#### Legend:

##### Problem areas:



Environment



Labour Rights



Human Rights



Corruption



Weapons

##### Status:



Excellent progress



Good progress



Standard progress



Poor progress



No progress



**SINGAPORE TECHNOLOGIES ENGINEERING**

Domicile	Sector	Country	Area	Status
Singapore	Industrial Goods & Services	Singapore		

- Incident** Association to manufacturing of anti-personnel mines.
- Process goal** To secure that the company ceases all business activities that are incompliant with the Mine Ban Treaty and also adopts a corporate policy on the issue.
- Comment** Singapore Technologies Kinetics (ST Kinetics), a wholly-owned subsidiary of Singapore Technologies Engineering (STE), produces anti-personnel landmines. The company has confirmed the production of the mines on several occasions, latest to GES Investment Services in November 2007. The company underlines that the mines are not for export. Singapore’s Ministry of Foreign Affairs has on several occasions confirmed the country’s production of landmines, latest in 2009. Singapore has a moratorium on export of anti-personnel mines since 1998. The reported practice can be associated to a violation of the UN Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and On Their Destruction (Mine Ban Treaty). Therefore, GES Investment Services recommends its clients to engage in dialogue and/or active ownership with the company, or as an alternative, to exclude the company from their investment universe.

**TOYOTA MOTOR CORP**

Domicile	Sector	Country	Area	Status
Japan	Automobiles & Parts	Philippines		

- Incident** Association to anti-union practices.
- Process goal** Ensure that company acts responsible to the alleged incident in Phillipines and that internationally proclaimed labour standards are respected.
- Comment** The Toyota Motor Philippines Company Workers Association (TMPCWA) union alleges that the management of Toyota Motor Philippines Corporation, a Toyota Motor Corporation subsidiary, has impeded the rights to organise and to collective bargaining and recurred to illegal dismissals of workers. The case is under scrutiny by the Philippine court system and by the International Labour Organization (ILO) Committee of Freedom of Association. ILO reporting from 2003 and onwards lists a number of actions taken by the company to challenge the certification of a union and to intimidate employees in their preference of union. The





Philippines Corporation, a Toyota Motor Corporation subsidiary, has impeded the rights to organise and to collective bargaining and resorted to illegal dismissals of workers. The case is under scrutiny by the Philippine court system and by the International Labour Organization (ILO) Committee of Freedom of Association. ILO reporting from 2003 and onwards lists a number of actions taken by the company to challenge the certification of a union and to intimidate employees in their preference of union. The reported practices can be associated to a violation of the UN Global Compact Principle 3 on labour standards and the OECD Guidelines for Multinational Enterprises, Guideline 4 on employment. Therefore, GES Investment Services recommends its clients to engage in dialogue and/or active ownership with the company, or as an alternative, to exclude the company from their investment universe.

### YAHOO! INC

Domicile	Sector	Country	Area	Status
United States	Technology	China		

**Incident** Association to violation of the freedom of expression.

**Process goal** Ensure that company acts responsible to the alleged incident in China and that internationally proclaimed human rights are respected.

**Comment** Yahoo stands criticised for having passed on Internet user data of a Chinese journalist to China's state security, leading to a ten-year imprisonment for the journalist in 2005. The transfer of information is confirmed by Chinese court documents and company statements. The reported practices can be associated to a violation of the UN Global Compact Principles 1 and 2 on human rights and corresponding Guideline 2 of the OECD Guidelines for Multinational Enterprises. Therefore, GES Investment Services recommends its clients to engage in dialogue and/or active ownership with the company, or as an alternative, to exclude the company from their investment universe.

#### Legend:

##### Problem areas:



Environment



Labour Rights



Human Rights



Corruption



Weapons

##### Status:



Excellent progress



Good progress



Standard progress



Poor progress



No progress



## ■ DIVESTED CASES

### CHEVRON CORP

Domicile	Sector	Country	Area	Status
United States	Oil & Gas	Ecuador		

**Incident** Association to environmental damage in the Amazon jungle.

**Process goal** To secure that Chevron acts responsibly through means of strengthening policies and guidelines, as well as addressing the specific health and environmental concerns in the parts of Ecuador where the company has operated.

**Comment** Kempen Capital Management has recently divested the company. According to the fund the lawsuit in Ecuador added to the negative view of the company.

### BAE SYSTEMS

Domicile	Sector	Country	Area	Status
United Kingdom	Industrial Goods & Services	Saudi Arabia		

**Incident** Association to bribery in various countries.

**Process goal** To secure that the BAE Systems acts responsibly with regard to the allegations of corrupt practices and that the company demonstrates a robust management system to prevent corruption, especially in high-risk markets.

**Comment** TT International has sold its shares in the company. They did not get straight answers from the company regarding the corruption and there are too high risks associated to the claims.



## 5. CORPORATE GOVERNANCE FOR INVESTMENT COMPANIES

The Dutch Corporate Governance Code, in which the principles for ethical company management and best practices were laid down by the Tabaksblat Committee, came into effect on 1 January 2004. The Code comprises 21 principles which are worked out in more detail in 113 best practices. KCM has responded positively to the Code. KCM believes that the Code can contribute to restoring faith in the capital markets and can therefore also lead to a higher shareholder value. The Code lays down a number of provisions on the responsibilities held by institutional investors.

The investment companies will always actively exercise their voting rights if together they, directly or indirectly, hold at least 5% of the outstanding share capital in one or more Dutch stock exchange-listed companies. The threshold of 5% has been chosen as a practical rule because:

- it is only above this percentage that voting rights have any real power;
- a case-by-case approach is worth adopting if over 5% is held;
- the investment company holding is then truly institutional in size.

In such cases, voting rights will be exercised following individual assessment of the agenda points. If one or more investment companies together hold 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.

The annual reports of Kempen Orange Fund N.V. and Kempen Oranje Participaties N.V. will render minimum account of the execution of the above policy. The (semi-) annual reports are published on Kempen & Co's website and are accessible to all. In addition, quarterly reports are published on how voting rights have been exercised at the AGMs of companies in which these investment companies (jointly) hold at least 5%.

The investment companies attach great importance to the companies in which they invest indicating the extent to which they comply with the Code. In the event of non-compliance, the companies should indicate the reason and the extent to which they do not comply. As an institutional investor we will not always test and challenge individual companies on all 113 best practices. We have selected the 27 best practices which we see as most relevant (see next section). We will test and where necessary challenge companies on these best practices and, where applicable, actively exercise our voting rights in relation to these best practices.

In 2010, KCM will further develop the (proxy) voting policy. For more information on Corporate Governance please refer to our website [www.kempen.nl](http://www.kempen.nl)



## 6. KEY FIGURES

### *Figures*

Number of meetings ESG Council	4
Number of asset managers engaged	11
Number of engagement meetings	11
Number of observation issues	76
Number of engage/exclude issues	13
Number of excluded companies	10
Assets under Management KCM Funds	1,622 mln
Assets under Management Total Funds	21,472 mln