

The Triodos approach to investments on stock and bond markets

Introduction

Triodos Bank is one of the world's leading sustainable banks. Its mission is to make money work for positive change. In addition to its core business of taking in savings deposits and lending them directly to sustainable enterprises, Triodos Bank offers investment services that fit its mission and vision. These services are provided by Triodos Private Banking and Triodos Investment Management (Triodos IM).

Triodos IM is a wholly owned subsidiary of Triodos Bank and manages impact investment funds. These funds invest directly in companies or projects with the aim of delivering social or environmental benefits, alongside financial return. Triodos IM's fund range includes eight funds that invest in global listed securities:

- **Triodos Global Equities Impact Fund:** Concentrated global portfolio of large cap companies offering sustainable solutions.
- **Triodos Pioneer Impact Fund:** Concentrated global portfolio of small- and mid-cap companies pioneering the transition to a sustainable society.
- **Triodos Future Generations Fund:** Concentrated portfolio of global listed small and midcap companies that support an ecosystem of equal opportunity, health and well-being, education, and safety for children.
- **Triodos Euro Bond Impact Fund:** Concentrated portfolio of investment-grade, euro-denominated bonds issued by companies and semi-public institutions and EU governments.
- **Triodos Sterling Bond Impact Fund:** Concentrated portfolio of investment-grade, pounds sterling-denominated bonds issued by listed companies, semi-public institutions and UK gilts.
- **Triodos Impact Mixed Fund - Defensive:** Concentrated portfolio of global equity positions (20%-40%) and investment-grade euro-denominated corporate, sovereign and sub-sovereign bonds (60%-80%).
- **Triodos Impact Mixed Fund - Neutral:** Concentrated portfolio of global equity positions (40%-60%) and investment-grade euro-denominated corporate, sovereign and sub-sovereign bonds (40%-60%).
- **Triodos Impact Mixed Fund - Offensive:** Concentrated portfolio of global equity positions (60%-80%) and investment-grade euro-denominated corporate, sovereign and sub-sovereign bonds (20%-40%).

This document explains the investment strategy and portfolio construction process of these funds grouped under the Triodos SICAV I umbrella, both from a sustainable and a financial perspective. Triodos Private Banking shares this public market investment philosophy and follows the same selection process for its investment services.

Mission

The mission of Triodos Bank is to make money work for positive social, environmental and cultural change and to help create a society that promotes people's quality of life, putting human dignity at the core. Triodos IM shares this mission. More specifically, Triodos IM's aim as an investor is to serve as a catalyst in the transition to an economy where people and planet come first.

Vision Triodos IM

Triodos IM's investment philosophy is based on the belief that in the long term, the most successful businesses will be those that achieve the right balance between their social, environmental and financial performance. Any company that intends to deliver long-term value must effectively manage its relations with all stakeholders and be responsive to their needs and demands. Companies that balance these interests effectively will deliver the greatest value to all their stakeholders, including their capital providers.

Strategy

We offer eight different UCITS-compliant, listed securities funds, each with their own strategy and thus their own risk-return characteristics. These funds invest on public markets across a wide range of stocks and bonds (corporate, sovereign and designated impact bonds) and have a long-term investment horizon and a concentrated portfolio in common. The funds are registered under the umbrella of Triodos SICAV I.

Triodos IM adheres to the definition of the GIIN in its approach to manage impact investments with a positive social and environmental impact.

“Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending on investors' strategic goals.”

This definition has been formulated by the Global Impact Investing Network (the GIIN) [link to: www.thegiin.org] a New York-based worldwide network of over 230 diverse organisations in the impact investing marketplace, founded in 2008. Triodos Investment Management is a co-founding member of the GIIN.

Impact through listed equities and bonds

The four corners of our investment compass are intentionality, measurability, financial risk and return and investor contribution. Each plays an integral part in realising transformative impact. We invest with a clearly defined intent to achieve positive change through specific social and/or environmental outcomes. We measure and manage impact based on both qualitative and quantitative indicators and impact data that are related to the fund objectives. The strategies of all our funds are based on a Theory of Change. This theory is a description of how we expect our investment activities to lead to realising our vision on positive impact. Our investment decisions are based on the impact-risk-return principle. We only invest in a company if we deem it in line with the sustainable objectives of the fund. To realise positive change, the expertise and role of the investor as a potential catalyser can be as important as the business and services offered by the portfolio companies. Beyond our investing activities, we also aim to contribute to accelerating transitions through active stewardship, advocacy and thought leadership.

Our sustainability and impact assessment of existing and potential investments focuses on four key aspects:

1. Determining the positive impact of any investment activity is the starting point, displayed in the contribution to one or more of our five transitions and supported by the fund's sustainability objectives.
2. Mitigating and managing any negative impact on people and planet our investments may have comes second but is no less important. We also assess external sustainability risks that may impact our investments.
3. Before we decide whether to invest in a project or company, we make an integrated analysis of all impact, risk, and return aspects. This analysis focuses on impact, sustainability and the principle of materiality. We identify a company's financial value drivers and evaluate/model the interplay between financials and sustainability prior to making investment decisions. Investments that match the impact, risk tolerance and return profile of the fund and fit within the portfolio are approved for investment.
4. To manage and measure our impact performance, we use the best available impact data and evidence to increase our contribution to impact and to manage our investments towards achieving the impact objectives.

Positive impact

We have identified five interlinked transitions for transformation that need to take place to achieve our vision of a prosperous life for people on a thriving planet: the food, resource, energy, societal, and wellbeing transitions. Based on the Theory of Change for each fund, we have determined a set of objectives, indicators and internal targets that guide us towards enabling and accelerating these five transitions. To qualify for investment, each potential investee, project, or bond should positively contribute to at least one of the sustainability objectives of the fund. An assessment of positive impact performance is made by considering relevant impact indicators and a qualitative assessment related to the fund objectives.

1. Food transition

The current structure of the food system lies at the centre of global problems. The preservation of ecosystems and the future wellbeing of the human population are all dependent on a structural transformation of the food system. This transition theme focuses on the goals related to this challenge - on ensuring a transition towards a sustainable, resilient and equitable food system, producing healthy, safe and nutritious food for all.

2. Energy transition

Mitigating and adapting to climate change are key challenges of the 21st century, focusing on our overall energy consumption and our dependence on fossil fuels. Our use and production of energy have a massive impact on the climate and the converse is also increasingly true: climate change can alter our energy generation potential and energy needs. The world needs nothing short of a complete transformation of the energy system that is the foundation of our economies and future sustainable development. In addition to ramping up the amount of energy from renewable sources, serious cuts to overall energy demand are necessary to achieve a timely energy transition. Energy democracy is key for the transition to be just. This transition theme focuses on fostering clean energy sources to make things move, heat up and cool down. This must reach all corners of society and the economy and address the mechanisms that ensure a just transition.

3. Resource transition

Our choice of materials directly impacts a variety of environmental, social and economic risks associated with producing goods. This ranges from labour conditions and trade flows to pollution, climate change and land use. Efforts need to be made to establish a circular management of all resources and materials to ensure that they can all be recycled indefinitely. This will fundamentally halt the environmental degradation caused by our production and consumption systems and push for a change in the way and the extent to which we extract, produce, use and dispose of goods and raw materials. The focus should be on enabling a complete paradigm shift that is based on placing value on everything we use and produce, moving away from an extractive towards a regenerative economy. The core of this transition theme is transforming our current model of linear resource use through circular products and circularity-enabling processes, technologies, business models and business practices.

4. Wellbeing transition

The quest for wellbeing is central to the human experience. Our society can only thrive if all its members are physically and mentally healthy. We need to make a shift to ensure that we deeply value and nurture individual wellbeing for all. This means ensuring that the necessary solutions are in place to grant access to well-functioning and affordable healthcare and care services and facilities for everyone, in all conditions and stages of life. This means fostering quality education that is centred on providing opportunities for individuals to grow in their knowledge, skills, talents and aspirations. This also means creating the conditions for healthy and fulfilling lifestyles, in which people can devote time and energy to their interests and hobbies, nurture their physical and spiritual sides, produce and enjoy arts and culture and cultivate their philosophy of life. Finally, telecommunication and consumer technologies should be at the service of individuals and have human dignity at their core. This transition theme focuses on activities that foster individuals' physical and mental health, as well as self-development, self-expression and healthy relationships with others.

5. Societal transition

A sustainable economy is an economy that works for all, leaving no one behind. One that values collaboration and fosters cohesion among groups and individuals, even or at the margins of society. While the world gradually mobilises to tackle the climate challenge, huge differences in wealth and opportunities still exist across society, sometimes exacerbated by environmental conditions. Such social divergence can also slow down the efforts to reach an economy that works within planetary boundaries. Inequality and social divides ultimately impact everyone, creating friction between individuals, within communities and across national borders. The path towards a cohesive society starts with respect for fundamental human rights. It leads past access to resources, products and services, as well as markets to meet basic needs. And it continues beyond, through enhanced opportunities that ensure everyone's voice is heard. This is only possible by pursuing a true spirit of solidarity and collaboration. In this theme we focus on activities and services that contribute to this journey towards increasing cohesion and social empowerment.

Mitigate negative impact

Companies and projects are screened against negative impact on people and planet that could jeopardise the sustainable transition that we envision. This includes the Triodos Bank minimum standards, the Principal Adverse Impacts (PAIs), the DNSH principle under SFDR and relevant sector-specific standards to ensure they do not cause any significant harm. They are excluded from investment if they fail this screening. If a company no longer meets these or is in danger of no longer meeting them, we will approach the company and call it to account. If this does not lead to the desired change in behaviour, the stock or bonds of the company will be divested from all portfolios within a period of three months after removal from the investment universe. See the [Minimum Standards and Exclusions](#) for more details.

Integrated analysis

Companies that have passed step 1 and 2, are subsequently subjected to a complete integrated impact, risk and return analysis. The analysis focuses on impact, sustainability and the principle of materiality. We identify a company's financial value drivers and evaluate/model the interplay between financials and sustainability prior to making investment decisions. Investments that match the impact, risk tolerance and return profile of the fund and fit within the portfolio are approved for investment. The actual portfolio construction is based on a comprehensive risk/return analysis. Stocks or bonds from the sustainable investment universe with the best risk/return perspectives and that complement the existing portfolio's composition will be added to the portfolio. Based on a long-term investment horizon, this investment approach results in concentrated portfolios with a low turnover.

Equity portfolio

If a company positively contributes to at least one of the sustainability objectives of the fund, the company's financial value drivers (the underlying determinants of revenue growth, operating profit margins, capital needs and cost of capital) are identified and the interplay between financials and sustainability evaluated. We assess how the identified value drivers are affected by the ESG issues we deem most material in the field of operations the company is active in. The outcome of this integrated analysis results in a cashflow-based valuation for the company. The price appreciation potential and fund manager conviction of a company are key elements in the portfolio construction process.

Bond portfolio

As with equities, the first check is the fit of a corporate bond or impact bond with the sustainability objectives of the fund. At the same time, macro-economic developments are monitored to determine a view on the development of interest rates and the credit cycle. Based on this view, Triodos IM constructs a bond portfolio with a clear allocation towards the five transitions through corporate bonds and impact bonds. The bond and mixed funds may also invest in regular (sub-) sovereign bonds. This bond category is used to manage the interest rate risk, liquidity risk and credit exposure of the portfolio. In the annex you can read more about the selection of sovereign bonds and designated impact bonds.

Accelerate transitions

We regard engagement and active ownership an integral part of our role as a responsible shareholder. The underlying theory of change is that through engagement and active ownership, investors can influence investees' corporate strategy and create positive impact. Our goal is to improve practices and outcomes for stakeholders, leading to sustainable long-term value creation that benefits shareholders.

Dialogue with companies

Where appropriate, we discuss substantial and relevant issues regarding companies' ESG performance, aiming to enhance their business performance. Our engagement strategy is designed to have meaningful dialogue with companies, aiming to maximise positive change and create long-term value for all stakeholders of a company, including society as a whole. To this end, we carefully choose relevant topics, set goals and select the most appropriate engagement type and tools. Fundamental company research, thematic research, and a well-managed relation with companies are key ingredients of our engagement strategy. As part of our engagement strategy, we develop annual engagement plans, which define the engagement topics and goals, and describe and motivate the choice of how to engage with a company.

Voting for change

We take our responsibility as a shareholder seriously. We strongly believe that by exercising our voting rights, we can exert a positive influence on a company's long-term strategy. We have a mandate to vote by proxy at shareholder meetings of all companies that we invest in. The voting advice is drafted by Glass Lewis based on the Triodos Proxy Voting Guidelines. . All investee companies are informed about our voting decisions. As an active shareholder, we may also attend AGMs to raise questions and encourage continuous improvement in sustainability performance.

Shareholder collaboration

To maximise our impact, we take part in collaborative engagement activities. We evaluate potential participation by assessing the thematic fit of the topics with our strategic agenda, the relevance for the portfolio, the quality of the proposed engagement programme, the potential to achieve positive impact and the alignment with Triodos' values of the engagement partners and networks.

Advocacy

We engage in advocacy by publishing position papers, opinion pieces or case insights to share our investment beliefs with its counterparts in the financial sector, regulators, policymakers and the general public.

Transparency

Triodos IM believes in full transparency, so that clients can decide for themselves whether its investments match their own personal values. The complete investment portfolios for each sub-fund and the Minimum Standards are published online. This information, together with the guidelines on proxy voting, the voting ballots and the annual impact report, are available at: www.triodos-im.com

Triodos SICAV I has been a signatory to the European Transparency Code since its launch in 2008.

Triodos Bank, April 2024.

Important note: For the implementation of its investment strategy, Triodos IM relies on publicly available information communicated by the companies and countries themselves and by third parties. Triodos IM is therefore unable to ensure that such information is complete and/or accurate. At any time, Triodos IM may reconsider previous investments based on newly available information.

Annex

Selection of designated impact bonds

The bond and mixed funds may invest in bonds that qualify as green, social, sustainability and blue impact bonds, climate awareness bonds and/or bonds issued under the Climate Bond Initiative. All impact bonds from issuers that are selected for sustainable investment are eligible for investment.

The selection process of impact bonds from issuers that are not selected consists of three steps:

Step 1: Sustainable activities

The proceeds of the impact bonds need to be invested in projects that contribute to the five transitions (the food, resource, energy, societal and wellbeing transitions). Furthermore, the sustainability of the projects financed through the impact bond needs to be measurable, to enable calculation of the positive impact.

Step 2: Minimum Standards for the issuer

Triodos Bank's Minimum Standards are the starting point. These are absolute criteria we apply to ensure that we do not fund any business engaged in controversial activities, or activities that are harmful to individuals, society or the environment. The issuer of the impact bond must comply with these Minimum Standards (or governance criteria in case the bonds are issued by sovereign or sub-sovereign entities).

Step 3: Sustainable process

To become eligible for sustainable investment, impact bonds need to meet the following process criteria:

- **Transparency:** issuers must be clear on which activities are financed and the investment decision making process.
- **Traceability:** the proceeds need to be earmarked, tracked and publicly disclosed (at least) on an annual basis.
- **Assurance:** activities and practices related to impact bonds require annual verification by an external auditor.

Bonds eligible for investment are monitored on a continuous basis to see if they continue to meet these criteria.

Selection of sovereign and sub-sovereign bonds

To manage the risk profile of bond investment portfolios, our bond and mixed funds may invest in investment grade, sovereign and sub-sovereign bonds issued by (regional or local authorities of) EU-member countries or the UK.

Bonds are selected in a two-step process:

Currency and country risk mitigation

Sovereign bonds and sub-sovereign bonds issued by regional or local authorities are used as a liquid, low-risk investment category to manage the risk profile of the investment portfolio. To prevent exposure to currency risk and country credit risk for these investments, only euro-denominated sovereign bonds of investment-grade members of

the European Union and euro-denominated sub-sovereign bonds issued by regional or local authorities of those countries are selected for investment by Triodos Euro Bond Impact Fund and the Triodos Impact Mixed Funds. For Triodos Sterling Bond Impact Fund, only GBP-denominated sovereign and sub sovereign bonds with at least an investment-grade rating are selected.

Step 2: Governance criteria

Countries (and their regions), eligible for investment for the purpose of currency and country risk mitigation, need to be free of international (EU and UN) sanctions and have military budgets that are no higher than 4% of GDP. We also require countries to score at least 40 on the Transparency International's Corruption Perception Index. Finally, countries must have ratified or be in the process of ratifying the most widely accepted United Nations backed conventions including the most important ones focusing on human rights and the environment. Given the dynamic nature of the process of proposing and ratifying these conventions, application of this criterion will change from time to time. If a country does not fully comply with this criterion, the background and the materiality of its non-compliance will be assessed as part of the decision to exclude the country for government bond investments or not.