

Sustainable investment in listed companies

1. MISSION

By offering sustainable financial services, Triodos Bank strives to make it possible for every person, company, and initiative to actively contribute to the realisation of a sustainable society. The financial services made available by Triodos Bank include financing, payments, savings, investments and mortgages for both institutional and retail clients. For each service, Triodos Bank has a policy that describes how it contributes to sustainable development. All policies are publicly available.

The broader mission of Triodos Bank is *'to contribute to a more people-oriented society – one which respects people, the environment and culture'*.

This sustainable investment policy is derived from our overall broader mission and applies to all Triodos Bank SRI products that invest on the stock market. Similarly, the Policy is developed in the belief that long-term business success will depend on the successful integration of social, environmental and financial considerations in business decisions. Therefore it adds to the success of Triodos Bank as an investor on the stock market.

2. VISION

Triodos Bank aims to ensure that:

- Clients know that their investments are positively contributing to a sustainable society. Triodos Bank only invests in companies that meet its sustainability criteria and it does not invest in companies that it considers to be associated with unsustainable services, products or processes. Furthermore its sustainable investment products stimulate companies to actively contribute to a sustainable society through business conduct and the products and/or services they offer.
- Constructive dialogue is conducted with companies to stimulate improved sustainability performance. The dialogue has a threefold purpose: to raise awareness, to influence company management and to trigger action with regard to sustainable business practices.

3. STRATEGY

As a sustainable investor, we are seeking to invest in companies that function in line with our values and that deliver long-term value in harmony with society and the environment. A company that intends to

deliver long-term value must effectively manage its relations with all stakeholders and be responsive to their needs and possibly changing demands. We believe that those companies that balance these interests effectively will deliver maximum value to all stakeholders, including their shareholders. Where appropriate we will seek to discuss substantial and relevant issues with regard to social, environmental and ethical performance. As manager of a number of Socially Responsible Investment (SRI) products Triodos Bank provides the opportunity for its investors to indirectly invest in companies. Therefore we feel we have the responsibility to encourage companies on behalf of our clients to improve their business practices with regard to ethical, social and environmental issues. Dialogue is seen as a way to enhance this business performance and the 'license to operate' of companies by discussing their business practices and impacts and suggesting possible improvements.

The results of our analyses on companies and dialogue activities are published on the website of Triodos Bank. They include details of the level and intensity of engagement activities, its content and votes on AGM's, including those against management and abstentions.

From a technical perspective, a distinction can be made between shares and bonds. This distinction has no influence on our strategy and investments are made in both shares and bonds. However, there is one exception. Triodos Bank has chosen not to invest in country bonds. The reason being, that an important part of our investment strategy is aimed at influencing a company's behavior in a positive way. It is impossible and regarded as unwanted to influence the behavior of a country through financial investment mechanisms.

4. CRITERIA

Triodos Bank conducts its own sustainability analysis of companies. Based on the outcomes of these analyses, the Triodos Bank investment universe is identified. Companies are screened both on absolute (exclusionary) and relative (best-in-class) criteria. As a starting point for defining criteria, Triodos Bank has identified seven themes that it considers most relevant for society. These themes include the responsible use of our cultural heritage, animal welfare, ecosystems, human rights, natural resources, social structures and human health.

The criteria that Triodos Bank applies are dynamic. Changes may be prompted by legislation, public debate, best practice standards or company behaviour. For identifying desired changes Triodos Bank engages with various interest groups, organisations and individuals. Since these stakeholders often have specific expertise on issues that are of central concern to our work, a regular contact and exchange of views is considered highly valuable. In addition, Triodos Bank believes that it is valuable for stakeholders to understand the nature of our work and to critically reflect upon the way sustainability analysis is conducted.

To provide a platform for frequent dialogue on these issues, an international advisory panel has been set up by Triodos Bank. The panel consists of around twelve experts, each with a background from employers', consumers and environmental organisations, trade unions, human rights groups, development and aid organisations and academia. The panel meets 3-4 times per year and is meant, amongst others, to provide feedback and advice on the general methodology for conducting sustainability ratings of companies and criteria to be used to assess companies' sustainability and how to apply these.

A full and up-to-date overview of the sustainability criteria used by Triodos Bank is published on the Triodos Bank website (www.triodos.com).

5. DIALOGUE

The sustainability analyses are used to enter into dialogue with companies. In order to stimulate companies to improve their sustainability performance Triodos Bank applies a number of instruments. The instruments can be categorized into three aims:

- raise awareness;
- convince;
- motivate change.

Triodos Bank may cooperate with other stakeholders to maximize the effectiveness of our actions. Partnerships that Triodos Bank has already developed in this field are memberships of Eurosif, Belsif and vBDO (the Dutch Association of Investors for Sustainable Development). These organizations actively engage with listed companies on corporate social responsibility.

5.1. Raise awareness

Two instruments are aimed particularly at raising sustainability awareness of the companies analyzed. The actions undertaken by Triodos Bank are a good starting point for further dialogue with the company.

Both instruments are applied in principle for every company researched by Triodos Bank. The instruments are:

Engage with companies throughout the research process
Triodos Bank purchases information from sources that actively engage in dialogue with companies and their stakeholders. The primary source of this information is SiRi Company, with whom Triodos Bank has a long-standing and active relationship. The interactive collection of data stimulates company awareness about sustainable investment and helps to encourage them to improve their own sustainability. In addition to purchasing information, Triodos Bank also approaches companies directly to obtain information regarding specific issues that may not have already been addressed. This dialogue also strengthens a company's insight into those issues that are important to shareholders.

Provide sustainability rating

Based on the data collected during the research process, a comparison of a company's sustainability performance within a sector is produced. This facilitates a more detailed assessment of the company, taking into consideration key themes and sector specific issues. Results are shared with the companies, including a full overview of individual performance on seven key sustainability themes, as well as the comparative performance. In addition, companies are informed whether or not they are eligible for investment by Triodos Bank. An overview of aspects that Triodos Bank considers to best contribute to an improvement of sustainability performance is also provided. The research is repeated periodically. Experience shows that many companies seek contact with Triodos Bank based on its assessments.

5.2. Convince

In order to convince companies that change in behavior is of strategic importance to them, Triodos Bank also applies two instruments. The relevance of these instruments is judged upon the potential impact on the sustainability performance of companies, the present interest for the theme within society and the likelihood that our efforts will indeed lead to a change in behavior of companies. Both instruments apply to all companies researched by Triodos Bank. For companies not found eligible for the Triodos Bank investment universe, the potential positive impact of improvement is considered largest. The instruments are:

Periodic dialogue with companies on specific themes

Triodos Bank strives to periodically define a number of sustainability themes on which it actively engages

with companies. By addressing these subjects at the right time, and by using its' position as a sustainable shareholder, Triodos Bank aims to enlarge the impact of this approach.

Placement of sustainability themes on the public agenda

In order to stimulate public debate, Triodos Bank will periodically address relevant sustainability themes in the media, if and where possible in coalition with other stakeholder groups. Triodos Bank will also increase pressure on companies to improve their sustainability performance by publishing the results of its research and more specifically by addressing actual developments on the behavior of individual companies in the media or with other public opinion leaders.

5.3. Motivate change

In order to trigger action from companies, Triodos Bank will dialogue with companies in which it invests. Even though these companies meet the sustainability criteria of Triodos Bank, there may still be areas of improvement. In case such a company systematically ignores attempts undertaken by Triodos Bank to engage with the company and no improvement in behavior is visible, the company ultimately may be excluded for investment. In order to motivate change, we will use our rights as a shareholder on Annual General Meetings. The instruments are:

Voting

Triodos Bank votes at Annual General Meetings whenever it is technically possible. For this reason, Triodos Bank has voting guidelines that describe the way it uses its voting rights. The guidelines have been influenced by our vision for a sustainable society and our sustainable investment criteria. A detailed

overview of all voting records on companies is published on the Triodos Bank Group website (www.triodos.com). As from 2006 Triodos Bank will write to all investee companies about its voting behavior in order to stimulate awareness of the Triodos Bank vision, and to help the companies improve their sustainability performance.

Speaking at Annual General Meetings

At a small number of Annual General Meetings for companies in which it invests, Triodos Bank speaks out in a constructive way. Comments focus on the strongest and the weakest aspects of the sustainability performance and are intended to be a starting point for future, and more profound dialogue with the companies. Currently Triodos Bank attends only those meetings that take place in The Netherlands and combines these activities with media attention whenever possible.

Shareholder resolutions

When it becomes technically available, Triodos Bank may file shareholder resolutions (independently or with other concerned investors), again focusing on weak aspects of sustainability performance. In the first instance, Triodos Bank will focus on companies in The Netherlands. Where this is already taking place, for example in the US, Triodos Bank will actively support initiatives from other investors that ask for a more sustainable behavior of the company involved. More specifically, this instrument will only be used when dialogue with management has proven to be unsuccessful in the past.

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