Our approach to investments on the stock market

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 Investment Management is a wholly-owned subsidiary of Triodos Bank and manages 17 sustainable investment funds. Most of these funds are categorised as impact investment funds, investing directly in companies or projects with the aim to deliver social or environmental benefits, alongside financial return. Triodos Investment Management's fund portfolio also includes four Socially Responsible Investment (SRI) funds, which invest worldwide in listed companies and bonds.

This document explains the investment strategy and portfolio construction process of the SRI funds - Triodos Sustainable Bond Fund, Triodos Sustainable Equity Fund, Triodos Sustainable Mixed Fund and Triodos Sustainable Pioneer Fund, grouped under the Triodos SICAV I umbrella - both from a sustainable and a financial perspective. Triodos Private Banking has the same SRI philosophy and follows the same sustainability selection process for its investment services; its financial selection process, however, is different from the process described in this document.

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 and has human dignity at its core. Triodos Investment Management shares this mission. More specifically, our aim as an investor is to serve as a catalyst in the transition to an economy where people and planet come first.

Vision

At the heart of our SRI philosophy lays the belief that in the long term, the most successful businesses will be those that achieve the right balance between their social, environmental and economic 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. We believe companies that balance these interests effectively will deliver the greatest value to all stakeholders, including their shareholders.

Strategy

We offer four different SRI funds, each with their own risk-return characteristics. The funds have a long-term investment focus and a concentrated portfolio in common.

The funds are registered under the umbrella of the Triodos SICAV I fund: Triodos Sustainable Equity Fund, Triodos Sustainable Bond Fund, Triodos Sustainable Mixed Fund and Triodos Sustainable Pioneer Fund.

Our SRI funds offer clients the opportunity to invest in a wide range of corporate stocks and (sovereign) bonds. While doing this, we aim to ensure that we:

• only invest in companies that contribute to a sustainable society or clearly lead the sustainability agenda in a particular sector. Furthermore, we will not invest in companies that are associated with unsustainable services, products or business processes. This is guaranteed by our rigorous selection process.

• conduct constructive dialogue with companies to stimulate improved sustainability performance. This dialogue has a threefold purpose: to raise awareness, to influence company management and prompt companies to act to further sustainable business practices.

• offer optimum transparency about our investment approach and its implementation. This enables clients to take a well-informed decision about whether or not to invest in the products we offer.

Our selection process, dialogue efforts and transparency are detailed further below. Sustainability research and engagement are provided by Triodos Research, which is part of Triodos Investment Advisory & Services, a wholly-owned subsidiary of Triodos Bank.

Selection of companies

We build our portfolio based on the principle that only companies that fulfill our sustainability criteria can be invested in. We select them by using a three-stepped
approach. Triodos Research picks companies on two different selection criteria: sustainable activities (step 1) and best-in-class sustainability performance (step 2). Companies that fit one of these categories must also comply with our minimum standards (step 3), before they can be added to our sustainable investment universe. Basic sustainability information on companies from data provider Sustainalytics, with whom Triodos Research has a long-standing relationship, is the starting point of our selection process. Once companies have passed step 3, they are added to the sustainable universe. The actual portfolio construction and investment decisions are made by Delta Lloyd Asset Management, based on its market insights and thorough financial expertise.

The three steps of the selection process are elaborated below.

**Step 1: Sustainable activities**

We have identified certain types of products and services that contribute to the health and well-being of people and planet. A company that derives over 50% of its revenues from such sustainable activities qualifies for investment by one of our SRI funds. The sustainable activities are grouped in three themes: clean planet, climate protection and healthy people. Companies can also be selected for their leading role in corporate social responsibility within their industry. These are the Corporate Social Responsibility (CSR) Pioneers.

**Clean planet**

We favour companies that contribute to a clean planet and the development of solutions for environmental pollution. This is an urgent issue because our natural environment is under increasing pressure. Examples of products and services that fall within the scope of this theme are environmental technology aimed at preventing and cleaning up pollution, equipment to monitor energy and water consumption, bicycles and public transport.

**Climate protection**

Climate change poses a serious threat to the long-term health of the environment and the world's population. It requires global action by governments, companies and citizens. We encourage companies to contribute to combating climate change. Companies in this theme are active in the production of renewable energy from the sun, wind, waves and geothermal energy. In addition, we include companies that develop new ways to storing energy and enhancing energy efficiency.

**Healthy people**

We prefer companies that contribute to a healthy lifestyle for everyone. Companies that fall within this theme offer solutions for health care issues, such as medical technology, drugs for treating serious diseases in developing countries, clean drinking water and innovative health care, medicines based on natural ingredients and organic food products.

**CSR Pioneers**

A company that qualifies as a CSR Pioneer is considered a real sector leader in terms of corporate social responsibility. A CSR Pioneer demonstrates leadership in its products or production process, showing its industry the path of transition to a sustainable society.

In addition to the above, in specific situations or as part of new developments, other sustainable activities may also be considered, for example new products or services that have particular importance from an environmental and/or social perspective.

**Step 2: Identification of best-in-class companies**

A company that does not derive over 50% of its revenues from sustainable activities (step 1) can still qualify for investment if its all-round sustainability performance puts it among the best in its industry. Triodos Research assesses the performance by using more than 70 generic and sector-specific indicators, relating to ESG (Environmental, Social and Governance) issues.

**Environmental indicators**

The environmental indicators compose a picture of the sustainability of the production process and the nature of the products supplied. To justify its long-term existence, a company must make a continuous effort to minimise its negative impact on the natural environment, including the reduction of water and energy use, green procurement and the development of sustainable products and services.

**Social indicators**

The social indicators examine the way in which a company fulfils its role in society and covers its relations with the community, employees, contractors, customers and competitors. Good employee relations are an important condition for the long-term success of a company. Employment terms and working conditions, and also the labour conditions of employees in the supply chain, are rated according to several different indicators.

**Governance indicators**

Ethical business management is an important condition for a sustainable relationship between a company and its stakeholders. The Governance indicators analyse the corporate structure and the company's business ethics, but also ESG governance, tax transparency and remuneration. Together, the ESG indicators determine the sustainability score of a company. When this score puts the company in the top 50% performers within its industry, it is eligible for investment - provided it also passes step 3.

**Step 3: Minimum standards**

Our minimum standards are the bottom line: they ensure that we do not fund a company that is engaged in activities that are harmful to individuals, society or the environment. All companies that pass step 1 or 2 must meet these standards before we will consider investing.
in them. We may make an exception if a company commits itself to meeting the standards in the near future.

Our minimum standards ensure that unsustainable products, like weapons and nuclear power, and unsustainable production processes, such as the violation of human rights and environmental damage, are excluded from our sustainable investment universe. But they also include preset requirements for policies and programmes that show the company is aware of the sustainability risks of its industry and that it takes action to mitigate these risks.

The minimum standards are dynamic, evolving over time with our deepening understanding of sustainability, and reflect the latest developments in society. In practice, this means that we are continually tightening them, to ensure that we only invest in companies that are really setting the pace within their industry. An up-to-date overview of our minimum standards is published on www.triodos.com.

Once a company passes step 3, it is added to the sustainable investment universe. The actual portfolio construction is done by Delta Lloyd Asset Management, based on its market insights and thorough financial expertise (see section Portfolio construction on page 4).

A company that qualifies for investment is subjected to a thorough analysis at least once every three years. During the intervening period the company is actively monitored. A (potential) violation of our minimum standards will be investigated. If dialogue with the company does not produce the desired change in behaviour, we will remove it from the investment universe. If a portfolio company is removed from our investment universe, Delta Lloyd Asset Management is required to adjust the portfolio accordingly within six months after removal.

Dialogue with companies

The key element in our SRI strategy is active engagement and dialogue with the companies we may invest in, aiming to raise awareness of sustainability, to stimulate action and to create lasting positive change. Where appropriate, we will seek to discuss substantial and relevant issues with regard to ESG performance, aiming to enhance the business performance of companies.

Engagement during selection

Triodos Research starts engaging with companies during the selection process, asking for information needed to complete the assessment. By engaging with them throughout this process, companies have the opportunity to share their perspective on particular issues and provide additional information that is not in the public domain. Any refusal is treated as a lack of transparency, which may result in exclusion from the sustainable investment universe.

Providing feedback

The result of the assessment is shared with the company. A company selected for sustainable investment will receive a full overview of its performance and improvement areas on key sustainability themes. Some companies seek further dialogue based on this assessment.

Voting for change

We take our responsibility as a shareholder seriously, strongly believing that by exercising our voting rights, we can exert a positive influence on a company's long-term strategy. Triodos Research has a mandate to vote by proxy at shareholder meetings of all companies that we invest in. We use basic voting advice from Pensions Investment Research Consultants (PIRC), in addition to applying our own voting guidelines. We inform all investee companies about our voting decisions, in order to stimulate awareness of our vision and the minimum standards we apply.

As an active shareholder, we also attend AGMs to raise questions and encourage continuous improvement in sustainability performance. Whilst the companies we invest in are already top corporate responsibility performers, we challenge them to further improve their sustainability performance in such a way that it benefits not only the shareholders, but all stakeholders.

Shareholder collaboration

In addition to seeking dialogue with individual companies, we also regularly work together with other investors, for example pension funds, to further steer sustainable performance. Partnerships with other shareholders help maximise the effectiveness of actions. We participate in the European Social Investment Forum (Eurosif) and four of its national member organisations (UKSIF, Forum Nachhaltige Geldanlage, Dutch Association of Investors for Sustainable Development and SpainSIF), the International Corporate Governance Network (ICGN), Eumedion and United Nations-supported Principles for Responsible Investment (UNPRI). Several of these organisations engage in an active dialogue with listed companies about corporate sustainability or focus on bringing institutional investors together for joint dialogue with companies.

Wider engagement

To enable us to maintain our strict minimum standards, we aim to stay on top of changes in best practice and regulation, by engaging with companies, non-governmental organisations, governments and independent experts.
Selection of countries

Triodos Sustainable Bond Fund and Triodos Sustainable Mixed Fund may also invest in sovereign bonds. These are issued by countries that meet the highest standards of democratic government and have signed the world’s most important environmental, social and human rights treaties and conventions. We consider it neither feasible nor desirable to engage with governments as an investor, despite the goal to influence sustainable behaviour. Governments should be supervised and influenced only by their citizens through democratic processes. Sovereign bonds are therefore considered a neutral investment category that we want to limit as much as possible.

Sovereign bonds are selected in a three-step selection process:

1. **Step 1:** Countries must belong to the 50 best functioning democracies within the group of 100 largest economies.
2. **Step 2:** Countries must be free of boycotts supported by the United Nations.
3. **Step 3:** Countries must underwrite the most important, broadly supported conventions of the United Nations.

Portfolio construction

The actual portfolio construction is done by Delta Lloyd Asset Management, based on their comprehensive risk/return analysis. Stocks or bonds from our sustainable investment universe with the best risk/return perspectives will be added to the portfolio. Based on a long-term investment horizon, Delta Lloyd Asset Management’s investment approach results in concentrated portfolios with a low turnover.

Investment strategy

Delta Lloyd Asset Management’s investment strategy focuses on aspects that will influence the valuation and cash-flows of selected companies worldwide. Delta Lloyd Asset Management maintains partnerships with both traditional and non-traditional sources of knowledge and expertise, including industry experts, academics, trade journalists and conducts over 1,000 company meetings per year. This enables Delta Lloyd Asset Management to identify themes, opportunities and risks. When constructing the portfolio, Delta Lloyd Asset Management looks for companies significantly affected by the identified themes.

Equity portfolio

As a first step in the construction of the equity portfolio, the analysts focus on understanding which basic parameters could make or break the business, the nature of the competition, management’s abilities and objectives, and the company’s fundamentals such as its historic margins and balance sheet.

2. **Step 2:** The next step is analysis of the expectations implied in the current stock price through a discounted cash flow model. Preset value drivers, include revenue growth, earnings before interest, taxes, depreciation and amortization (EBITDA), margins and asset returns.

3. **Step 3:** During the portfolio construction, the mismatch between a company’s fundamentals and the expectations implied by the current market price (i.e. expected return) is used to compare the investment opportunities. If the risk/return status of an individual stock in the portfolio gradually deteriorates, Delta Lloyd Asset Management will consider replacing it with a better short-listed stock.

Bond portfolio

1. Delta Lloyd Asset Management’s Fixed Income Team formulates a general view on markets and economic developments on a quarterly basis, in order to define risk positioning and allocation to different bond categories (sovereigns, sub sovereigns, corporate and covered bonds).

2. The second step entails fundamental research on individual companies and countries. In addition to fundamental company analysis, bond covenants, a qualitative SWOT analysis and peer group risk premiums are compared in absolute and relative terms. This leads to an individual proprietary credit rating for each bond instrument under consideration.

3. The portfolio construction combines the top-down and bottom-up research from steps one and two. The Fixed Income Team determines the position in the credit cycle from a top-down perspective (crucial to understand whether credit spreads still compensate for the risks) and tries to avoid too much concentration in the portfolio regarding rating categories, sectors, countries, instruments and counterparties. From a bottom-up perspective, the portfolio is constantly checked to align with the macroeconomic view.

Sovereign bonds

Triodos Sustainable Bond Fund and Triodos Sustainable Mixed Fund may also invest in sovereign bonds.

The country allocation decision has a bottom up approach. All countries are studied in depth and based on different macro-economic factors, like debt-to-GDP ratio, budget deficit, current account, unemployment rate and economic growth expectation.

Delta Lloyd Asset Management aims to add value by focusing on reducing the downside risk and if allowed to add value to implement views and ideas on: country/issuer selection, duration bets, curve positioning, security selection, and sector rotation.
Transparency

We believe in full transparency, so that clients can decide for themselves whether our investments match their own personal values. We publish our complete and up-to-date sustainable investment universe, the investment portfolios for each sub-fund and our minimum standards online. This information, together with our guidelines on proxy voting, our voting ballots and our annual engagement report, are available at www.triodos.com/en/investment-management. Triodos SICAV I is signatory to the European Transparency Code since its launch in 2008.

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