



IPD&E Engagement Policy

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Stewardship is the careful and responsible management of assets entrusted to us. Investors in Triodos Investment Management's (Triodos IM) funds aim to create positive impact through investing while generating a financial return. By investing in our private assets, investors pursue additionality of their investments and value Triodos IM adding value to its investments. This includes the careful selection of investees, as well as engagement and active ownership.

We believe that companies with strong impact potential embedded in their corporate purpose and mission, and sound business practices that incorporate material environmental, social and governance (ESG) factors will contribute to positive environmental and/or societal change while generating solid financial returns and improved shareholder value. We engage to contribute meaningfully to our investees achieving transformative impact. We do this through dialogue with investee companies to optimise transformative change, reduce or avoid negative impact and create long-term value for the benefit of society and the planet while enhancing the long-term value creation potential of the company.¹

¹ See "Our approach to sustainability" (2022)

1. Scope

This Engagement Policy is a guide for external clients (investors and investees) and internal co-workers. It applies to all funds within Triodos IM's Impact Private Debt & Equity (IPD&E) business unit. These funds differ in their impact objectives, investment strategies, sectors, asset classes (e.g. debt versus equity), and geographies. Given the diversity in the portfolio, the specific types, levels and topics of engagement vary, and the Engagement Policy describes our overarching approach.

2. Definitions

The term 'engagement' is used in many contexts and definitions vary. We define the following terms for clarity:

Company engagement

Company engagement is the dialogue of investors with companies (via equity and/or debt investments) with the intention to move investees to more responsible and sustainable business practices to reduce negative and increase positive impacts.

Active ownership

Active ownership is the use of the rights and position of ownership to influence the activities or behaviour of investee companies (via equity investments). Active ownership roles are generally picked up for equity investees of Triodos IM and may include shareholder representative, non-executive board member and board observer.

1. Shareholder representative: Representative of Triodos IM to participate in shareholder meetings and voting.
2. Non-executive board member: Representative of Triodos IM personally appointed to sit on the investee's executive and non-executive board. Can file proposals, discuss and decide on strategic items.
3. Board observer: Representative of Triodos IM to join board meetings as non-voting member.

2.1 Advocacy

Advocacy is the activity of an individual or group to influence decisions within political, economic and social institutions. Triodos IM engages in advocacy by publishing position papers, opinion pieces or case insights to share its investment beliefs with its counterparts in the financial sector, regulators, policymakers and the general public.



3. Types of Engagement

Engagement can be informative, reactive or proactive. Informative engagement is a core part of our investment process and is done with all investees to enhance disclosure on various topics. Reactive engagement usually entails following up company-specific issues, while proactive engagement is centrally steered. Table 1 describes the types of engagement and the three main topic areas covered in Section 4.

Table 1: Types and Topics of Engagement

	Triodos Minimum Standards and Industry Sustainability Standards	Corporate Governance	Impact Measurement and Management	Strategic Impact Engagement Programmes
Request for information (Informative)	X	X	X	X
Event-driven (Reactive)	X			
Opportunity-based (Proactive)		X	X	X

3.1 Request for information engagement (informative)

As a first step in our investment process, we request information from potential investees. Types of information include financial, risk, operational, strategic, policies and governance structures, and sustainability and impact strategies and goals. The purpose is to assess the positive impact potential and identify and mitigate sustainability risks and negative impact (both outside-in and inside-out) which specifically align to the Triodos minimum standards.²

As part of our due diligence, we use sector-specific assessment tools or questionnaires, tailored to the context of the company and sector, to assess companies in relation to industry standards. Based on the outcome of the positive impact and sustainability assessment, we identify key opportunities for improvement and longer term value creation. These are captured in the investment proposal and may inform investment conditions or future engagement topics. Depending on the topic, the investee may need to meet certain milestones following a plan attached to the loan or shareholder agreement. An investee performance monitoring plan is also agreed at the time of the investment. This plan outlines the key performance indicators the investee will be required to report during the life of the investment. This process strengthens awareness and inspires investees to enhance their own impact measurement and management practices.

Over the life of the investment, we follow up at least once a year to check that there has been no material change according to our minimum standards. For instance, involvement in a certain product or sector might exclude a company from investments ex ante or lead to an exclusion following a shift in the company's business or an acquisition of another company.

3.2 Event-driven engagement (reactive)

Occasionally, we also engage beyond regular investee monitoring when triggered by an event. We request for companies to follow up on allegations or information about a shortcoming with respect to something that may represent a violation of Triodos minimum standards, loan agreement or shareholder agreement. We contact the company to clarify and investigate the allegations or information, and to assess the severity of the incident as well as the responsibility and accountability of the company. Involvement in minor controversy with limited corporate responsibility would lead to expressing concern and the need for more scrutiny on the topic, while involvement in a serious controversy highlighting clear company shortcomings could lead to us considering divestment.

² Triodos Minimum Standards



3.3 Opportunity-based engagement (proactive)

We see opportunity-based, proactive engagement as key to creating value and impact. Goal-oriented, thematic dialogue with companies promote good corporate governance and sustainable transition, and go beyond monitoring, compliance with Triodos minimum standards and due diligence requirements. Collaborative engagement is pursued informally on a case-by-case basis to align investors or financiers on common goals for the company meeting. This can materialise during board meetings. If an investee needs external technical support to create impact, we can facilitate this by providing access to resources and tools, networking opportunities for peer-to-peer learning, or direct support from our in-house technical experts.

4. Engagement Topics

The topic of engagement efforts is embedded in Triodos IM requirements, fund impact frameworks and company-specific business needs, as well as in centrally- steered impact programmes.

4.1 Industry standards and Triodos minimum standards

Industry standards are the best practices for a given sector. Triodos minimum standards and exclusion criteria set out the absolute minimum standards that we apply to all our loans, investments and current and saving accounts of business clients and suppliers. The exclusions in the minimum standards fall into three categories: human dignity, planet awareness and governance awareness. Each of these categories has plenty of activities that detract from the positive impact that we want to create.

In addition to our minimum standards, we also tailor engagement topics to the material industry ESG risks assessed in due diligence. We support the transition to a sustainable economy and enhance transformative impact by researching and identifying sustainability topics for specific companies or sectors. And we pursue proactive dialogue with clients to encourage them to progress towards benchmark milestones and goals. This includes alignment with industry standards, such as following the Universal Standards for Social Performance Management for Financial Inclusion, or the International Finance Corporation's Environmental and Performance Standards (IFC PS, 2012) for renewable energy.

4.2 Corporate governance and technical expertise

Together with our investees, we set specific goals related to strengthening corporate governance. Our core expertise is to create value and transfer knowledge on broad corporate governance issues such as business strategy, risk management, growth or professionalisation. We take a hands-on approach to ensure that policies and checks are in place, and board committees on specific issues are arranged. Good governance reduces ESG risks and facilitates environmental and social impact improvement within businesses.

4.3 Impact measurement and management

We systematically consider measurable impact as part of our investment process together with our investees. We integrate impact objectives into the investment documentation, i.e. the loan agreement or the shareholder's agreement. We set and agree impact KPIs in line with fund-specific impact frameworks, and we support some investees with expertise, tools or access to networks, depending on need and demand.



4.4 Strategic impact engagement programmes

We invest to create, enhance and accelerate positive impact for people and planet. Therefore, in addition to engaging with individual investees on industry-specific sustainability themes and corporate development, we also proactively engage across funds at Triodos Investment Management level on cross-cutting themes in line with our impact narrative³

For proactive engagement programmes, we follow a systemic process to select impactful topics, relevant companies or industries. Our issue-based engagement strategies contain appropriate goals and timelines. The section below describes the governance and processes of strategic engagement programmes.

4.4.1 Topic selection and proposal

The Investment Strategy team steer the topic selection for strategic impact engagement programmes. The team propose engagement topics in line with the group's transformative impact themes. In collaboration with the investment teams, they determine the portfolio relevance and impact potential. The Investment Strategy team prepares a proposal of methodology with targets and timelines, including an initial pilot study, to ensure feasibility.

4.4.2 Decision-making

The proposal is submitted to the Triodos Investment Management Impact Committee (TIMIC) to approve the vision and set the agenda. The TIMIC consists of the Managing Director of Triodos Investment Management, the Impact Equities and Bonds Directors, the Director of Impact Private Debt and Equity, the Impact Manager, Impact Equities and Bonds, the Impact Manager, Impact Private Debt & Equity, the Head of Investment Strategy and the Head of Corporate Communications. The TIMIC also sets KPIs for engagement, designates responsibilities and allocates resources.

³ See Impact Narrative (2022)

5. Engagement Roles and Responsibilities

Fundamental company research, thematic research and a well-managed relationship with the investees are key ingredients of our engagement approach.

5.1 Difference in leverage

Our leverage depends on our role as an investor or financier and is documented and monitored through different means:

5.1.1 Debt

IPD&E acts as a lender by providing loans of different durations to businesses or special purpose vehicles that own and control assets. The terms and conditions are embedded in the **loan agreement**, which is reviewed annually. Sustainability and impact goals, along with financial and risk-related goals, can be embedded in the loan agreement and be monitored. However, leverage over the company's course of action is limited in our role as a lender.

5.1.2 Equity/assets

IPD&E acts as a shareholder or owner when it owns a stake in a company or assets. The conditions of the investment are embedded in the **shareholder agreement**, the company's **Articles of Association**, and the **board charters**. Our leverage is greater as a shareholder representative. We can raise topics such as the need for policies, programmes and controls in place by IPD&E.



5.1.3 Board member

As a board member, Triodos IM can influence the agenda, the work by committees and contribute to decisions about the direction of a company. This form of engagement is tracked in board minutes and reports.

5.2 Execution and escalation

The investment teams execute, track and escalate engagement in line with the agreed KPIs.

5.2.1 IPD&E engagement lead

The designated IPD&E engagement lead is the point of contact, and responsible for overseeing the execution, monitoring and reporting of proactive engagement activities. The engagement leads provide quarterly updates on proactive engagement activities to the IFRC.

5.2.2 IFRC

The IFRC monitors the performance of engagement in terms of engagement contacts with investees on specific engagement topics. The impact managers, together with the investment teams, evaluate engagement programmes for impact and oversee reporting in line with regulatory and public disclosure requirements.

5.2.3 Relationship managers

The relationship managers for individual investees or clients are responsible for conducting and tracking engagement topics and activities for their investees. The annual review of the investment or loan includes an overview of engagement activities and goals reached. If the outcome of an engagement process is not as expected or the objectives are not met, the case may be escalated.

5.2.4 Investment committee

The investment committee approves the engagement approach for individual investees. Each proposal contains a paragraph that addresses the proposed engagement with the specific investee. The type of engagement will depend on the product offered, the sector of operations and maturity of the client. The engagement approach can include criteria such as conditions precedent for disbursement (completion to be confirmed prior to entering into the relationship) and conditions subsequent (progress to be monitored post engaging in the relationship) as well as specific engagement actions such as assistance or introductions and (in case of equity investments) board or shareholders engagement actions. The engagement approach, as determined by the investment committee, will be monitored and reported upon as per this policy. Progress on engagement is part of the annual review of each client where new goals and objectives can be set by the investment committee. Lack of or adverse progress can result in decision to divest.

5.2.5 Director of IPD&E

The Director of IPD&E is responsible for the overall execution of engagement programmes and escalation in line with the set strategy.

5.3 Evaluation and impact measurement

Engagement is regularly evaluated in terms of company responsiveness and progress made. For proactive opportunity-based engagement programmes, progress is assessed annually in line with the framework and compared to its peers. The evaluation of the company engagement may also lead to the evaluation of the engagement strategy and goals.

Impact management and measurement of investments is described in the fund-specific impact frameworks. The measurement of the impact of engagement is challenging. First, many different factors (intervening variables) can be the main factor of change, and second, good data is rarely available. Triodos approximates the measurement of impact of engagement efforts via milestones or scores, and where available via impact data and transition indicators. It also tracks the frequency and intensity of dialogues.



6. Transparency

Triodos IM aims to uphold maximum transparency towards clients, investee companies and other stakeholders. Policies, fund holdings and engagement activities and outcomes are published on the Triodos IM website and in our regular impact reports.

7. Ownership and Maintenance

This policy is owned by the Director of IPD&E and is subject to approval by the Non-Financial Risk Committee and Triodos IM's management board. The policy is subject to a review on an annual basis.

Triodos Investment Management, November 2022