

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'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 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. Companies that balance these interests effectively will deliver the greatest value to all their stakeholders, including their capital providers.

Strategy

Triodos IM offers 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 certified green and social bonds) and have a long-term investment focus and a concentrated portfolio in common. The funds are registered under the umbrella of Triodos SICAV I.

Important elements of the investment strategy are:

- **Rigorous selection process;** Triodos IM only invests in companies that contribute to a sustainable society through their products, services, or processes. Furthermore, it will not invest in companies that are associated with unsustainable services, products or business processes.
- **Constructive dialogue;** Triodos IM actively engages with companies to stimulate improved sustainability performance while enhancing company value creation opportunities. This dialogue has a twofold purpose: to raise awareness, to influence company management and prompt companies to act to further sustainable business practices, thereby seeking benefits for all stakeholders involved.
- **Optimum transparency;** by offering details about its investment approach, its implementation, and underlying holdings, Triodos IM aims to enable its clients to make a well-informed decision about whether to invest in the products offered.

The investment approach, engagement activities and transparency are detailed further below.

Investment approach

Triodos IM builds its portfolios based on the principle that only companies that fulfil our sustainability criteria can be invested in. This is done using a three-step approach. First, companies are selected based on sustainable activities (step 1) with the caveat that these companies must also comply with Triodos IM's minimum standards (step 2). Once companies are deemed eligible for investment, integrated financial and sustainability analysis (step 3) is conducted to see whether companies qualify as portfolio candidates. Portfolio construction and investment decisions depend on price appreciation potential, impact potential, portfolio manager conviction, risk-return characteristics and portfolio requirements and market circumstances.

Step 1: Sustainable activities

From a broad universe of companies, those that offer products or services, or that have business operating models which support the transition to a sustainable society, are selected. Triodos IM has identified certain types of products and services that holistically contribute to the transition to a sustainable world. These sustainable activities, which the United Nations have set forth to act on in their 17 Sustainable Development Goals (SDGs), address the global challenges posed by structural trends such as ageing population, resource scarcity, inequality and exclusion. Seven transition themes act as a lens to select the funds' investments.

1. Sustainable Food & Agriculture

Triodos IM selects companies that contribute to farming systems that preserve soil, water systems, nature and biodiversity as well as companies that promote sustainable food products and healthy diets. Also, companies that sustain depletable food resources such as fish may qualify. Examples of products and services that are part of this theme are natural and organic food products, vegetarian or vegan food products, sustainable fisheries, nutritious and healthy food products. Companies in this theme may be producers, processors, distributors, retailers or otherwise active in the promotion of food that is healthy for people and planet.

2. Sustainable Mobility & Infrastructure

The mobility systems of the future are likely to be different from what exists in most of the world today. Efficient mobility solutions that operate on sustainable infrastructures contribute to a sustainable future. Mobility and infrastructure solutions also enhance the quality of life of individuals and communities. However, private and public mobility, and the construction and usage of infrastructure have significant carbon footprints and social, environmental and ecological impact. Companies that offer sustainable solutions for mobility and infrastructure challenges such as urban mobility, sustainable buildings, and electric vehicles can be selected.

3. Renewable Resources

The growth of the world's population and its wealth are two trends that increase global consumption and therefore the demand for natural resources. This increases the human environmental footprint well beyond the regenerative capacity of the earth. The challenges that these two trends pose is how to replace finite resources by renewable resources, increase efficiency of their use and preserve their origin. To contribute to these challenges, Triodos IM invests in companies that provide an alternative to fossil fuel-based resources, like renewable energy, produce bio-based materials as alternatives to finite resources or contribute to more efficient water infrastructure and responsible water use.

4. Circular Economy

An economy that fits within the boundaries of the earth means that our production system needs to transform from linear to circular. This implies a transition from a take-make-waste economy to an economy where products are designed to last as long as possible, where fewer finite resources are used, and where all materials are used as long as possible. Triodos IM selects companies that organise their process following principles of the circular economy.

Re-use of materials, products and parts of products, reduction of the use of (finite) resources and the recycling of materials are the main ways to contribute to a circular economy. Examples of companies aligned with this theme can be found in the waste management and recycling sector, among companies using product as-a-service business models and companies which outperform in eco-efficiency combined with product life extension.

5. Prosperous & Healthy People

All humans have the right to a standard of living that is adequate to maintain health and well-being of themselves and their family – this is one of the human rights laid down in the UN Universal Declaration of Human Rights. In line with this human right, companies that offer solutions for health issues, such as medical technology and healthcare services, may qualify. Also captured within the theme are companies that offer products and services that help build healthy lifestyles, such as personal hygiene and leisure. In addition, companies that help maintain a good health by preserving the environment are considered.

6. Innovation for Sustainability

Innovation is one of the catalysts for a more sustainable future, but only if steered in the right direction. Examples of products and services that fall in this theme are ICT, cybersecurity, telecommunication and robotics. Companies that are technological front-runners in sustainable innovation and technology not captured by previous themes can be selected.

7. Social Inclusion & Empowerment

This theme focuses on the way individuals and groups can take part in society, to develop themselves and prosper. Due to technological development, aging, increased inequality, migration and skill shortages, the active participation of all people is under pressure. A company that qualifies in this theme contributes to the participation of all people in society, and to equality and inclusion in this respect. Triodos IM invests in companies that provide education, access to media and information, and access to financial services. Additionally, companies that excel as a role model in advancement of social inclusion and equality may also qualify.

Step 2: Minimum Standards

Triodos IM reviews companies for the possible risk that their business practices could jeopardize the transition we envision by evaluating the company against the Triodos Group process, product and precautionary minimum standards. Companies that do not meet the Minimum Standards are ineligible for investment. Every company is subjected to a thorough analysis and is continuously monitored to see whether it still meets the Minimum Standards. If a company no longer meets these or is in danger of no longer meeting the Minimum Standards, 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.

Step 3: Integrated analysis - portfolio construction

Companies that have passed the first two hurdles, are subsequently subjected to a complete integrated financial and sustainability analysis. This step focuses on the potential impact of sustainability factors on a company's future financial value, making Triodos IM's approach both solutions-focused and forward-looking. 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 fits with at least one of the seven transition themes, its vision, mission and culture, as supported by management, are checked to ensure its positive impact. Subsequently, 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. Triodos IM assesses how the identified value drivers are affected by the ESG issues Triodos deems 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 if the fit of a corporate bond or impact bond with one or more of our seven transition themes is supported by a vision, mission and a culture supported by management to ensure its positive impact. 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 impact themes through corporate bonds and impact bonds. The bond and mixed funds may also invest in 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 certified green or social bonds.

Engagement

Engagement with companies is one of the cornerstones of Triodos IM's impact equity and bond strategy. Through dialogue Triodos IM aims to raise awareness of sustainability, to stimulate action and to create lasting positive change. Engagement starts during the investment selection process and continues after selection into the list of eligible names or portfolio. Companies in the investment universe and portfolio are actively monitored and fully re-assessed every twelve months. A potential breach of Triodos' minimum standards prompts an in-depth investigation and could result in exclusion from the portfolio.

Dialogue with companies

Where appropriate, Triodos IM discusses substantial and relevant issues regarding companies' ESG performance, aiming to enhance their business performance. Its engagement strategy is designed to have meaningful dialogue with companies, aiming to maximize positive change and create long-term value for all stakeholders of a company, including society as a whole. To this end, it carefully chooses relevant topics, sets goals and selects the most appropriate engagement type and tools. Fundamental company research, thematic research, and a well-managed relation with companies are key ingredients of the engagement strategy. As part of its engagement strategy, Triodos IM develops annual engagement plans, which define the engagement topics and goals, and describes and motivates the choice of how to engage with a company.

Voting for change

Triodos IM takes its responsibility as a shareholder seriously, strongly believing that by exercising its voting rights, it can exert a positive influence on a company's long-term strategy. Triodos IM has a mandate to vote by proxy at shareholder meetings of all companies that we invest in. Glass Lewis supports this process, in addition to Triodos IM's own voting guidelines. All investee companies are informed about the voting decisions to stimulate awareness of vision and Minimum Standards. As an active shareholder, Triodos IM also attends AGMs to raise questions and encourage continuous improvement in sustainability performance. While Triodos IM investee companies are already top sustainability and impact performers, they are challenged to further improve in such a way that benefits not only the shareholders, but all stakeholders.

Shareholder collaboration

In addition to dialogue with individual companies, Triodos IM also regularly works together with other investors, for example pension funds, to further steer sustainable performance. Partnerships with other shareholders help to maximise the effectiveness of actions. Triodos IM participates 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 the 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 maintain its strict Minimum Standards, Triodos IM aims to stay on top of changes in best practice and regulation by engaging with companies, nongovernmental organisations, governments and independent experts.

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, June 2022.

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.

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 sustainable activities in one or more of the seven themes: Food & Agriculture, Mobility & Infrastructure, Renewable Resources, Circular Economy, Prosperous & Healthy People, Social Inclusion & Empowerment and Innovation & Technology. Furthermore, the sustainability of the projects financed through the impact bond needs to be measurable, so as 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 Triodos Bank applies to ensure not to fund any business engaged in controversial activities, or activities that are harmful to individuals, society or the environment. The issuer of the impact bonds must comply with these Minimum Standards.

Step 3: Sustainable process

In order 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, the 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.

The selection process consists of the following:

Step 1: 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 investments 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 rated at least investment grade 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. Moreover, countries need to 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, the application of this criterion will change from time to time. If a country does not comply fully 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.