

Climate-related Risk Disclosures

TCFD Report

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Triodos  Investment Management

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Introduction

Climate-related risks can potentially have a large financial impact on the losses of financial institutions and therefore Triodos Investment Management (Triodos IM) views it as an important topic to integrate fully in its risk management systems. The purpose of this disclosure is to present how climate-related risks and opportunities are organised in processes and procedures considering both physical risks (that arise as physical consequences from climate change) and transition risks (relating to the transition to a climate-neutral economy).

For this purpose, the reporting framework of the Taskforce on Climate-related Financial Disclosures (TCFD) was used, which was set up in 2015 by the G20 Financial Stability Board. In line with the TCFD Recommendations this report consists of four pillars: Governance, Strategy, Risk Management, Metrics and Targets. For a full understanding of Triodos IM’s approach to climate change, this disclosure should be considered together with Triodos Bank’s Integrated Annual Report and As One To Zero progress reports.

Governance	Strategy	Risk Management	Metrics and Targets
<p>Disclose the organization’s governance around climate-related risks and opportunities.</p>	<p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material.</p>	<p>Disclose how the organization identifies, assesses, and manages climate-related risks.</p>	<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p>
<p>Recommended disclosures</p> <ul style="list-style-type: none"> Describe the board’s oversight of climate-related risks and opportunities. Describe management’s role in assessing and managing climate-related risks and opportunities. 	<p>Recommended disclosures</p> <ul style="list-style-type: none"> Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning. Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. 	<p>Recommended disclosures</p> <ul style="list-style-type: none"> Describe the organization’s processes for identifying and assessing climate-related risks. Describe the organization’s processes for managing climate-related risks. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management. 	<p>Recommended disclosures</p> <ul style="list-style-type: none"> Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

1. Governance

1.1 Board oversight on climate risk

The Management Board (MB) of Triodos IM and governance related committees (such as the quarterly Non-Financial Risk Committee (NFRC) and the Impact and Financial Risk Committees (IFRC's) oversee senior management and challenge business activities and controls, including climate-related risks and opportunities with respect to the investment funds Triodos IM offers to its investors.

1.2 Management's role in assessing and managing climate risk

The Management Board is responsible for strategy and has delegated execution on ESG matters across the organisation. Primary responsibility is delegated to several committees that are (mostly) occupied by management representatives, such as the Triodos IM Impact Committee (TIMIC) and the NFRC. The TIMIC is delegated the responsibility to form guidelines on impact for Triodos IM. The primary objective of the TIMIC is to understand, align and equip the business to steer our impact activities and exclusionary criteria in line with our mission and in keeping with our identity. The NFRC is delegated the responsibility to monitor and challenge the development of the non-financial risk profile of Triodos IM to determine whether non-financial risks are in line with the defined risk appetite.

2. Strategy

2.1 Identified climate risks and opportunities

Triodos IM has identified climate-related risks and opportunities over the short, medium and long term. It is our view that transition risks and opportunities are particularly relevant in the short to medium term, whereas physical risk is particularly relevant over a longer period (hence the 2050 scenario analysis).

Climate-related risks

As investment manager our main climate-related risks are related to our investment portfolios. Climate risks are considered from both an outside-in perspective (how climate risk may impact an investment) and from an inside-out perspective (how an investment may impact climate risk). The impacts following the occurrence of a climate risk event may be numerous and typically depend on the specific risk, region and asset class.

There were two types of climate-related risks identified for the organization: transition risk and physical risk. **Transition risk** is risk arising from the behavior of economic and financial agents in response to the implementation of energy or technological development policies. **Physical risk** is stemming from direct impact of climate change on people and property due to extreme weather events or long-term phenomena such as rising water levels or increasing temperatures.

The following time horizons are defined:

- Short Term (ST) = Within two years
- Medium Term (MT) = Between three to ten years
- Long Term (LT) = More than ten years

The table below shows several of the identified risks. This list is not exhaustive as other risks could also arise. These risks were identified using the TCFD Implementing Guidance (2021) and the costliest physical risks of which there are data available were taken into consideration.

Risk	Horizon	Description
Transition risk		
Emerging regulation	ST/MT	In the future, regulation and supervision of climate-related risk in the financial sector could increase, leading to enhanced reporting obligations. Also increased scrutiny on sustainable investment products to battle greenwashing is expected.
Legal	ST/MT	Triodos IM could be more liable for climate change issues and litigation which could cause significant damage to cost as well as a loss of customers which impacts commercial development.
Technology	MT	Unsuccessful investment in new technologies or substitution of existing products and services with other options that have lower emissions could hurt the financial performance of investments.
Market	ST/MT	The market could be influenced by increased cost of raw materials which could have an impact on the profitability of investments and therefore on Triodos IM.
Reputation	ST	Negative press coverage related to the support of projects or activities with negative impact on the climate (e.g. GHG emissions, deforestation, water stress) could hurt the reputation of Triodos IM and the sector.
Physical risk		
Acute physical	ST/MT	The following acute physical risk were identified for the investment portfolios: <ul style="list-style-type: none"> • Heat waves • Flooding • Droughts • Storms • Wildfires • Landslides
Chronic physical	LT	Triodos IM, due to its office located in the Netherlands, is exposed to sea level rise risk. The global portfolio of investments is exposed to chronic physical risks of heat stress, sea level rise and water scarcity.

Climate-related opportunities

We have identified five interlinked transitions for transformation: food, resources, energy, societal and wellbeing. These transitions have been derived from global megatrends that we believe will shape the future, and they are in line with the UN Sustainable Development Goals (SDGs). One of the transitions identified is the energy transition: from a fossil-based economy to a fossil-free economy. Companies and projects that materially contribute to the energy transition are considered for investing.

The table below shows several of the identified risks. This list is not exhaustive as other opportunities could arise. These risks were identified using the TCFD Implementing Guidance (2021).

Opportunity	Horizon	Description
Resource efficiency	ST/MT	As there is a move to more efficient modes of transport, production, buildings and water use, there are expected to be benefits to the investments that were selected for their resource efficient practices.
Energy source	ST/MT	The adoption of lower emission sources of energy and supportive policy incentives is expected to be an opportunity as more capital will flow towards our investment products in renewable energy.
Products and services	ST/MT	Shifting consumer preferences towards low emissions goods and services could lead to increased revenues and a better competitive position of Triodos IM.
Markets	LT	New and emerging markets (e.g. nature-based solutions) could provide the potential to increase financial assets diversification and revenues.
Resilience	MT	Participation in initiatives to promote the resilience of the energy infrastructure (e.g. energy storage) provide an opportunity as Triodos IM has significant experience in this field and this could lead to increased revenues.

2.2 Impact on business, strategy and financial planning

The identified climate-related issues have an impact on Triodos IM's business, strategy and financial planning.

Products and services

We envision a world where all people have the necessary tools and resources to live fulfilling lives, while the economy operates in harmony with nature rather than against it, within planetary boundaries. More details on our vision can be found in our vision paper: [Towards a Regenerative Economy](#). This vision has been translated into a Theory of Change, which highlights how every investment product contributes to (one of) the five transitions.

Supply chain and/or value chain

All suppliers of Triodos IM are required to sign off on compliance with the Triodos Minimum Standards. This prescribes a certain level of consideration of environmental aspects such as climate change, deforestation and water scarcity.

Adaptation and mitigation activities

Triodos IM supports climate change mitigation and adaptation by investing in companies with activities in sustainable agriculture and forestry, renewable energy, water management, low emissions transportation and sustainable buildings. Triodos Bank, of which Triodos IM is a wholly owned subsidiary, has set the ambitious target to reach net zero by 2035. The target covers the complete range of funds managed by Triodos IM. The aim is to reach this target by reducing own emissions and financed emissions intensity. Also, investments in nature-based solutions are part of this. More details on our carbon reduction ambition can be found on the [As One To Zero website page](#).

Investment in research and development

Triodos IM performs extensive in-house research to gain a deep understanding of climate-related issues both before and during investment. Through the publication of research papers and communication of research findings with investee companies, this knowledge is shared.

Triodos IM office building

Triodos IM is located in a new office building, developed on estate De Reehorst, which was awarded Most Sustainable Project 2019 by Cobouw. The building was designed to be completely demountable, was constructed from reusable and reused materials and has a wooden construction. The building strengthens the Nature Network in the Netherlands (NNN) and 2,5 ha of forest was added to the estate to improve biodiversity. Also, the building features the world's first bidirectional charging service for electric vehicles. To promote sustainable transport, the building is located immediately next to the train and bus station. Aside from this, the building is completely energy neutral and holds the green building certification BREEAM Outstanding. As such, the company facility contributes to climate change mitigation and adaptation.

Divestments

In the listed investment strategies, an investee company that no longer meets the Minimum Standards, for example if it has more than 5% of revenue derived from fossil fuel activities, must be divested within three months. In the event of an investment in one of the non-listed investment strategies being in breach our minimum standards, we will divest as soon as possible considering the illiquid nature of these investments.

Access to capital

Before access to capital is provided, each investee company is assessed on its GHG emissions reporting and carbon reduction initiatives. If the company operates in a high-risk industry and does not meet climate change requirements, it is not deemed suitable for investment.

2.3 Strategy resilience

Triodos IM assesses the impact of external sustainability factors on its investments. Its positive impact approach is a mitigating factor for most types of transition risk. One example is the potential introduction of a carbon tax. As Triodos IM excludes investment in fossil fuels, the financial impact of such changes will be limited.

In general, however, sustainability risks are complex and may occur in a manner that cannot reasonably be anticipated, resulting in material negative impact on the value of an investment.

To improve the resilience of the organization's strategy, Triodos IM takes into consideration different climate-related scenarios provided by an external provider.

Listed investments

Scenario analysis helps defining the value at risk¹ resulting from physical risks. The analysis is done on issuer level and covers all relevant issuers. The outcomes of those scenarios are also aggregated and analyzed on fund level. Two of the most relevant scenarios used as part of the IPCC 5th Assessment Report (AR5) are considered:

- RCP 8.5 with temperature alignment of 3.2-5.4°C (worst-case)
- RCP4.5 with temperature alignment of 1.7-3.2°C (likely)

RCP stands for Representatives Concentration Pathways.

¹ The Value at Risk (VaR) of an individual issuer estimates the change in share price as a result of considering the financial impact of physical risks.

Furthermore, we also monitor the issuer's Physical Climate Risk Management practices to assess the issuer's abilities to face climate-related risks pointed out by the scenario analysis.

Non-listed investments

For non-listed investments an internally developed methodology is developed to estimate the probability of outside-in sustainability risk. This methodology calculates the expected exposure of our strategies to these risks. If this exposure becomes material or is outside of the strategy's risk appetite, mitigation will be applied. This internal methodology is evaluated on an ongoing basis and further enhanced when deemed needed.

3. Risk management

3.1 Processes for identifying and assessing climate risk

Even though we select for positive impact, it is practically impossible to rule out all negative effects. For each individual investment we therefore determine if any negative impact is limited and acceptable or can sufficiently be mitigated. During the process of sourcing new deals or assessing potential investee companies, these are screened against negative impact on climate that could jeopardise the sustainable transition that we envision. This includes the Triodos Bank minimum standards, the Principal Adverse Impacts (PAIs), the Do-No-Significant-Harm principle under SFDR and relevant sector-specific standards to ensure they do not cause any significant harm. In these assessments, the likelihood and impact on physical risk is also taken into account. Projects and companies are excluded from investment if they fail this screening. Existing investments undergo periodic review and monitoring, which includes the review and monitoring of climate risk.

3.2 Processes for managing climate risk and integration of processes for overall risk management

For all investment strategies, climate risks are managed based on the general risk control cycle of Triodos IM. As a first step, the climate risk universe is determined by identifying the most important climate risks within our investment strategies. Secondly, the identified climate risks are assessed. For listed investment strategies, the physical risk for each fund is assessed using the scenario's mentioned under section 2.3. For the non-listed strategies, climate risks identified are assessed by estimating the total expected financial loss on a product or strategic level. In the third step of the risk control cycle it is decided if risk mitigation is required. This is mainly determined on our investment policies, including the risk appetite. The last elements of the risk control cycle is monitoring and reporting against the risk limits set by Risk Management. The assessment of climate risks is part of the Impact & Financial Risk Reports that is monitored in the IFRC which is held monthly or quarterly, depending on the investment strategy.

4. Metrics and targets

4.1 Metrics to assess climate-related risks and opportunities

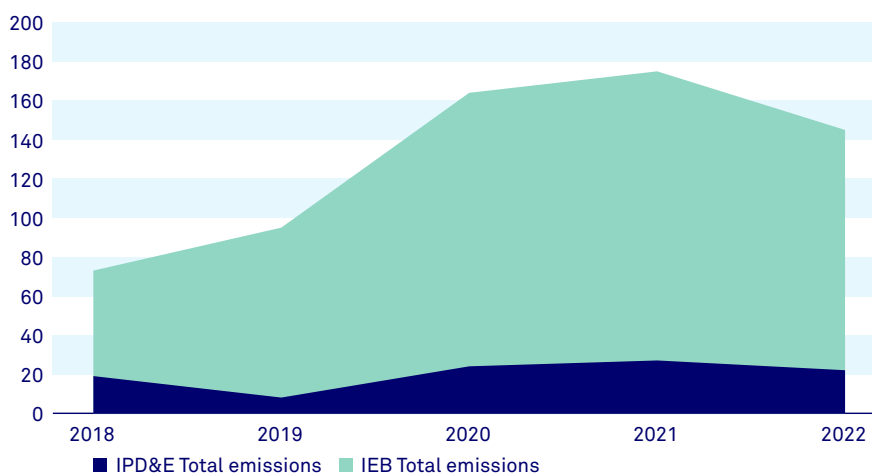
Based on current best practices as outlined by the Partnership for Carbon Accounting Financials (PCAF), the TCFD recommendation as well as the Science Base Target Initiatives (SBTI) methodologies, Triodos IM uses the following metrics among others and in addition to the above-mentioned scenario analysis (See 2.3 Strategy resilience) to assess climate-related risks and opportunities in line with its strategy and risk management process.

Metrics	Definition	Potential use cases
GHG	Absolute <ul style="list-style-type: none"> Total Carbon Emissions² Intensity Transport: g CO₂ scope 3/km P&P: tCO₂ (scope 1-3)/t board and paper Weighted Average Carbon Intensity³ 	<ul style="list-style-type: none"> Monitor SBTi intensity target for transport. Monitor SBTi intensity target for pulp & paper Monitor our investment portfolio for exposure to emission-intensive companies. Identify investment opportunities in efficient companies
SBTi Portfolio Coverage	<ul style="list-style-type: none"> % of portfolio that has adopted SBTi 	<ul style="list-style-type: none"> Identify investment opportunities in companies with best GHG practices. Monitor our progress towards our SBTi target

4.2 Historical analysis of climate related metrics

As Triodos IM's scope 1 and 2 emissions are marginal. We therefore focus this analysis on the company's scope 3 emissions. Graph 1 shows that in 2022, Triodos IM's scope 3 amounted to 145k tCO₂e. This represents a YoY 13% geometric average increase since 2018. This increase is largely due to a significant growth of the global economy. Since 2020, however, we see an average geometrical decrease in total carbon emissions of 4% as well as a 8% decrease in weighted average carbon intensity (Graph 2). This is the result of lower global economic growth but also our holdings becoming more GHG efficient. Graph 3 shows that in 2023, 57% of Triodos IM's listed portfolio (IE&B) was covered with SBTi targets. This was well above our SBTi target for listed investments of 43% for 2023. In private debt & equity, companies with fewer than 500 employees are excluded from our SBTi targets, and short-term loans (<1 year) are out of the SBTi framework scope. This excludes the majority of our Food & Agriculture portfolio. The remaining private investments in-scope are our larger Financial Inclusion investments, whose emissions are also mainly scope 3.

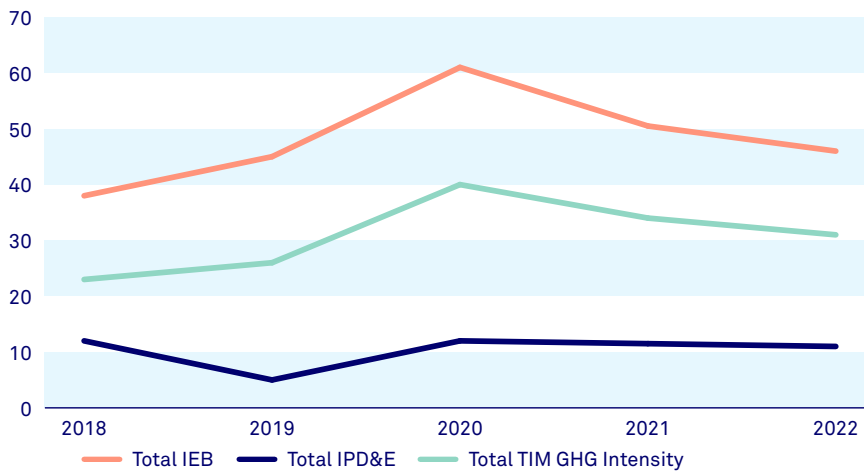
Graph 1 TIM Total Carbon Emissions Scope 3 GHG (thousands tCO₂e)



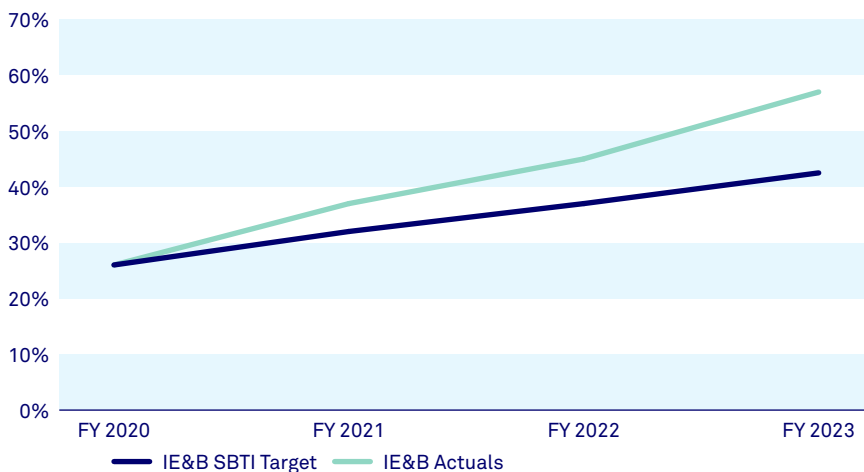
² Calculation in line with the [2021-TCFD-Implementing_Guidance.pdf \(tcfhub.org\)](#)

³ Calculation in line with the [2021-TCFD-Implementing_Guidance.pdf \(tcfhub.org\)](#)

Graph 2 TIM Scope 3 Weighted Average Carbon Intensity (tCO₂e/M€)



Graph 3 IE&B SBTi coverage



4.3 Climate-related targets

In March 2023, SBTi has validated Triodos Bank’s near-term emission reduction targets to reach net zero by 2035. As part of this strategy, Triodos IM has set the targets below which have also been validated by SBTi and that are constantly monitored.

- 1) Triodos IM commits to reduce its scope 3 GHG emissions from the pulp & paper sector within its listed investment portfolios with 45% per ton paper and board produced by 2035 from a 2020 base year.
- 2) Triodos IM commits to reduce its scope 3 GHG emissions from the transport - vehicle manufacturing (PLDV) sector within its listed investment and corporate bond portfolios with 44% per vehicle km by 2035 from a 2020 base year.
- 3) Triodos IM engages with its investees to reach 51% of its listed and non-listed investment portfolios by net asset value, setting SBTi validated targets by 2025, and 82% by 2035.

There are shorter-term targets and initiatives to reach the above three longer-term targets

- **100% engagement with all holdings:** For the listed portfolios, engagement is conducted with all investee companies on a yearly basis and the contact often includes a discussion on climate change. Depending on the investees’ stage in its journey towards net zero, we often recommend the adoption of SBTi in addition to monitoring the company’s progress against its GHG emission reduction targets.

- **Engaging yearly with the top 5 emitters per fund:** In addition, we have also set a separate GHG engagement project which aims at performing a deeper analysis of the GHG reduction strategy of the top 5 emitters per listed investment strategy and we engage with them accordingly. During those engagements, we go deeper than simply recommending the adoption of SBTi. We will challenge the company's confidence to reach its carbon reduction targets and focus on a company's strategy to tackle its Scope 3 emissions among others. For private investments, we are prioritising raising awareness and building capacity for carbon emissions accounting and reduction strategies in our Financial Inclusion and Food and Agriculture portfolios.
- **Triodos IM also supports several climate related initiatives:** Triodos IM is signatory and a member of the CDP Green Finance Accelerator, which engages with up to 23,000 companies on the topics of adverse impact indicators (including climate), the EU Taxonomy, and SFDR/CSRD more broadly. Together with Triodos Bank, we encourage the financial sector to step up its climate ambitions. In the Netherlands, Germany and Spain, we contributed to agreements by the financial sector to national climate agreements. In 2018, we started measuring the carbon emissions generated by our loans and investments. We did this using the Partnership for Carbon Accounting Financials (PCAF) method. PCAF was launched in 2015 by a group of Dutch financial institutions, including Triodos Bank, during the Paris Climate Conference. At the end of 2020, about 100 financial institutions participated. And recently, Triodos Bank was the first bank to join the global campaign for a proposed Fossil Fuel Non-Proliferation Treaty, meant to help phase out the use of coal, oil and gas.

About Triodos IM

Triodos Investment Management is a globally active impact investor and a wholly owned subsidiary of Triodos Bank NV. As a financial institution, we use money as a driving force towards a society that is humane, ecologically balanced and works for the benefit of all.

For more than 30 years, we have offered impact investment solutions that connect investors who want to make money work for positive change with innovative entrepreneurs and sustainable businesses doing just that. Our investment activities are focused across five interlinked transition themes: the food transition, resource transition, energy transition, societal transition and the wellbeing transition. Our mission as a financial player is to enable and accelerate these vital transitions.

For more information about our approach to impact investing, please visit www.triodos-im.com

Disclaimer

The Triodos sustainability documents are developed for proprietary use. Third parties or stakeholders have no right to rely on our documents, nor do we accept any duty of care or liability in relation to our interpretation and application of them. It is important to understand that, while Triodos IM seeks to ensure that customers / investment companies meet these documents, it has no control over the actions of its customers / investment companies. Nevertheless, if we discover that a customer/ investment company is outside our policies, we will request that it remedies the situation within reasonable time and we will close the relationship unless satisfactory action is taken. In this process, Triodos IM uses independent information where available but also uses its judgment as necessary.

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