

Our approach to Sustainability

Version 10 March 2021

Triodos@Investment Management

1. Purpose

At Triodos Investment Management (“Triodos IM”), we believe how we invest defines the world we want to live in, recognising the instrumental role and creative power of capital when used consciously. As a financial institution, we use money as a driving force towards a society and economy 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.

This document explains the Triodos approach to sustainability, including sustainability risks, as required in article 3 of the European Sustainable Finance Disclosure Regulation (SFDR). As Triodos IM's approach to sustainability goes beyond article 3 of the SFDR, we elaborate how we have integrated sustainability in every step of our investment process, throughout our organisation and how we manage sustainability risks.

2. Introduction to this document and definitions

2.1 This document

This document contains the following:

- Section 1: Purpose
- Section 2: Introduction to this document and definitions
 - 2.1 This document
 - 2.2 Definitions
- Section 3: Who are we
- Section 4: Our Business Principles
- Section 5: Our approach to Sustainability
- Section 6: Inside Out lens: Sustainability Impact
 - 6.1 Optimise positive impact
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2.2 Definitions

For this document, the following definitions apply:

- **'SFDR'** – Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, as amended from time to time;
- **'Taxonomy'** – Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, as amended from time to time;
- **'sustainable investment'** means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance, as in article 2 (17) SFDR;
- **'sustainability factors'** means environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters, as in article 2 (24) SFDR;
- **'sustainability risk'** means an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment, as in article 2 (22) SFDR;
- **'physical/societal risks'**: a physical or societal event or condition that could cause an actual or a potential material negative impact on the value of the investment because of damage, supply chain/social disruption, availability of resources (sick leave, depletion of natural resources), etc. These risks can occur event-driven (acute) or because of longer-term shifts in patterns (chronic);
- **'transition risks'**: risks resulting from required/desired changes from a societal perspective. This could occur because of policy or legal changes (including litigation claims), technology developments, market shifts or reputation issues because of changing customer or community perception;
- **'Inside Out'**: the impact of our organisation and investments on the sustainability factors as in the outside world;

- **'Outside In'**: the impact of sustainability factors as in the outside world on our organisation and investments;
- **'impact'**: the effect that our organisation and investments have on the sustainability factors as in the outside world;
- **'positive impact'**: impact that contributes to a society that is humane, ecologically balanced and works for the benefit of all;
- **'negative impact'**: impact that opposes a society that is humane, ecologically balanced and works for the benefit of all
- **'Triodos Investment Management'** or **'Triodos IM'**: Triodos Investment Management B.V., a private limited liability company incorporated in the Netherlands, with its registered office at Nieuweroordweg 1, NL-3704-EC Zeist, the Netherlands, and licensed as (UCITS) Management Company as well as Alternative Investment Fund Manager (AIFM) by the Dutch Authority for the Financial Markets (AFM);
- **'funds'**: the collective investment funds (UCITS or AIFs) managed by Triodos IM

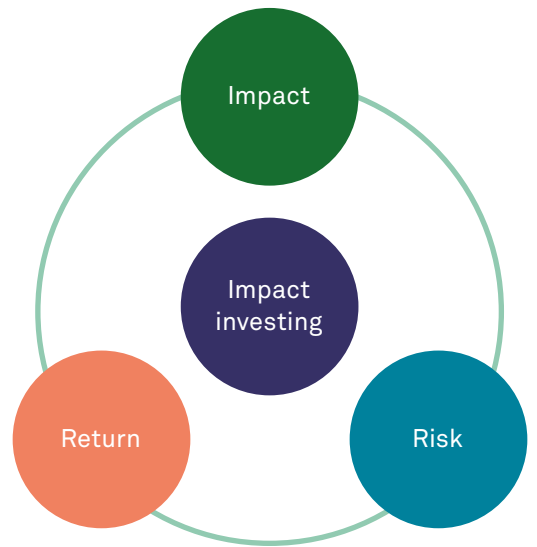
3. Who we are

Triodos IM is a globally active impact investor. Our mission is to make money work for positive change, while generating a balanced return. We manage direct investments in areas such as renewable energy, organic food and microfinance. We also invest in listed securities of companies and bond issuers that contribute to a transition to a more sustainable economy.

Triodos IM is part of Triodos Bank NV (“Triodos Bank”), one of the leading sustainable banks in the world and the co-founder of the Global Alliance for Banking on Values (GABV). All investment strategies and all assets under management actively engage for positive change in society, combined with a financial return.

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, balancing risk, return and impact.

More information about Triodos IM is available on: <https://www.triodos-im.com/about-us>



4. Our Business Principles

In addition to the broad vision that underpins our business, we have a number of Business Principles that guide and support our day-to-day decision-making. We are dedicated to making a positive impact on the world and to lead by example. The business ethics and values are described in our Business Principles, see: <https://www.triodos.com/governance#principles>

The following Business Principles, Triodos IM is committed to, specifically relate to sustainability:

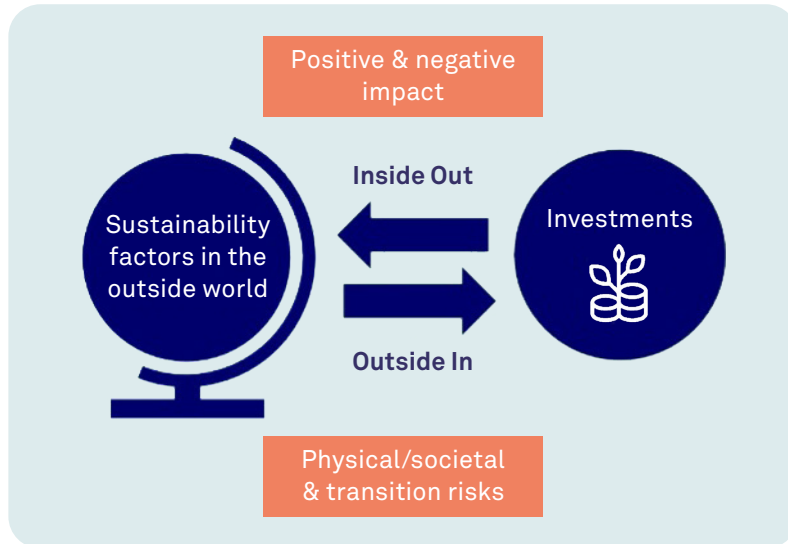
- **Promoting sustainable development:** considering the social, environmental and financial impacts of everything we do;
- **Respecting human rights:** respecting the rights of individuals, and within different societies and cultures, supporting the aims of the United Nation's Universal Declaration of Human Rights;
- **Respecting the environment:** doing all we can to create and encourage positive environmental impacts.

5. Our approach to Sustainability

To adhere to our mission of making money work for positive change, while generating a balanced return, we separate two sustainability impact lenses:

- **Inside Out:** the impact of our organisation and investments on the sustainability factors as in the outside world, resulting in positive or negative impact (see Section 6)
- **Outside In:** the impact of sustainability factors as in the outside world on our organisation and investments, resulting in sustainability risks such as physical/societal and transition risks (see Section 7)

Triodos IM approach to Sustainability



6. Inside Out lens: Our Sustainability Impact

Our mission is to make money work for positive societal and environmental change. All investments made by Triodos IM are carefully screened on sustainability factors and are linked to positive investment impacts and indicators to ensure that our investments contribute to positive change.

Triodos IM has published its '[Principal Adverse Sustainability Impacts Statement](#)' ('Statement') on the Triodos IM website, as required by article 4 of the SFDR. The Statement provides information on the principal sustainability indicators Triodos IM considers in its investment decisions.

As Triodos IM's approach to sustainability impact is broader than the Statement, we apply the "inside-out lens" in order to elaborate on the actual investment process that Triodos IM applies to its investments. We explain how we optimise positive impact and minimise negative impact.

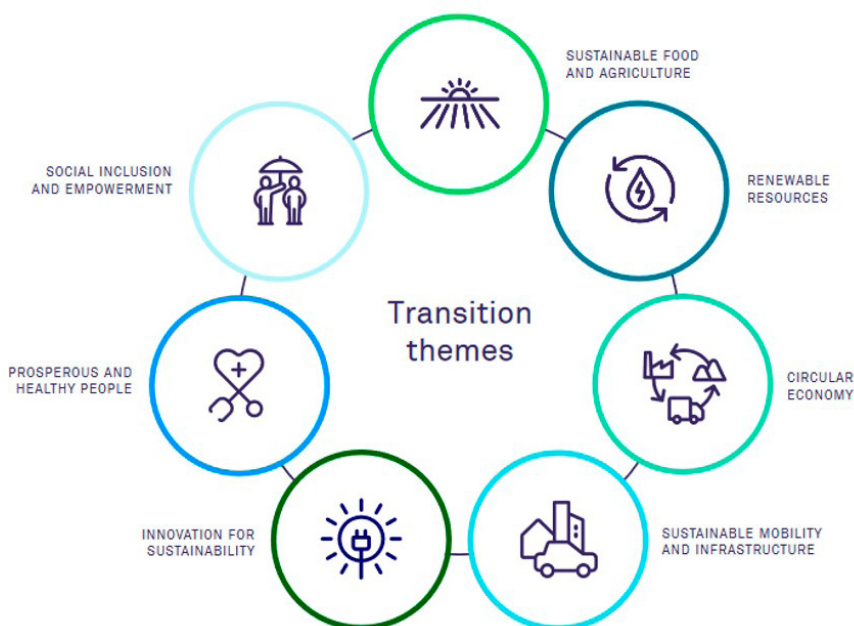
6.1 Optimise positive impact

We have developed a wide range of investment products to give investors the opportunity to build a portfolio across all asset classes where 100% of the assets can be committed to positive social and/or environmental impact. To explain our approach to optimise positive impact, we distinguish between two sets of investment products that Triodos IM manages:

- **Impact Equities & Bonds:** Triodos IM invests in listed securities of companies and bond issuers that contribute to a transition to a more sustainable economy.
- **Impact Private Debt & Equity:** Triodos IM invests in private sustainable companies and projects across the themes Energy and Climate, Sustainable Food and Agriculture and Financial Inclusion.

Impact Equities & Bonds

As an investor in global listed securities, Triodos IM aims to serve as a catalyst in the transition to a sustainable economy and society. We have defined and invest in seven themes that are instrumental in the transition toward a sustainable economy. Therefore, the themes are very much aligned to the UN Sustainable Development Goals (SDGs). Our themes have been derived from global mega-trends that we believe will shape the future. The seven transition teams are presented in the figure below. We generate positive impact by investing in listed companies that support sustainable solutions and by being active stewards of the planet and society. We elaborate on impact investing through listed equities and bonds in a separate [whitepaper](#).



Seven transition themes of Impact Equities & Bonds

Triodos IM's in-house research guides this process by developing comprehensive opinions of each individual company's long-term commitment to sustainability and material contribution to the transition themes.

More information about how sustainability factors are integrated in the investment process of our listed investments is available in [The Triodos approach to investments on stock and bond markets](#).

Impact Private Debt & Equity

Access to private debt and equity instruments is key for entrepreneurs and businesses to enable them to add and create real value that benefits society as a whole. Within our Impact Private Debt & Equity activities, we manage investment funds across three strategic investment themes. We provide entrepreneurs and businesses with capital, expertise and the network to create positive impact within these themes, which are presented in the next overview.

Energy and Climate

Transforming the energy system and lower carbon emissions



Impact Private Debt & Equity

We provide investors with opportunities to invest directly in the energy transition and system transformation through funds that finance renewable energy, stimulate more efficient use, and improve access to energy. All of which aim to ensure an affordable and reliable supply of clean energy. For more information read our [vision paper](#) 'Towards a low carbon economy'.

Financial inclusion

Bringing people into the financial system and providing access to basic needs



Impact Private Debt & Equity

We finance values-based organisations in Asia, Africa, Latin America and Eastern Europe that use financial services to deliver sustainable economic, social and environmental development, thereby serving the real economy and meeting the needs of underserved populations.

Sustainable Food and Agriculture

Creating an ecologically and socially sound food and agricultural system



Impact Private Debt & Equity

We aim to accelerate the transition to a sustainable food and agricultural system that produces healthy food for all, while respecting the limits of our planet and paying farmers fairly. Our investment funds offer a range of financial instruments to companies active across the international supply chain that demonstrate a deep-rooted commitment to environmental and social performance. For more information read our [vision paper](#) 'Towards an ecologically and socially resilient food system'.

6.2 Minimise negative impact

As a 'pure play' impact investor, we exclusively provide investment solutions that address social and environmental challenges and contribute to positive change. However, some of the resources, practices, and products that companies use, execute, manufacture or sell, are irreconcilable with our positive impact ambitions and our values. To assure that investments are aligned with Triodos IM' values and to minimise potential negative impact, Triodos IM applies strict Minimum Standards to its investments (either directly or integrated in a fund-specific policy / procedure). These Triodos Minimum Standards ('Minimum Standards') are designed to ensure that companies and/or projects are excluded when they significantly harm environmental and/or social objectives and/or do not follow good governance practices, which Triodos IM defines as:

- hamper human dignity and deny people's quality of life
- jeopardize a sustainable society with respect to the animal world and environment
- violate good corporate governance structures.

Please read our '[Triodos Minimum Standards](#)' for details of the products, processes and the precautionary principles.

Since Triodos IM considers principal adverse impacts of its investment decisions on sustainability factors, Triodos IM has published its '[Principal Adverse Sustainability Impacts Statement](#)' ('Statement') on the Triodos IM website.

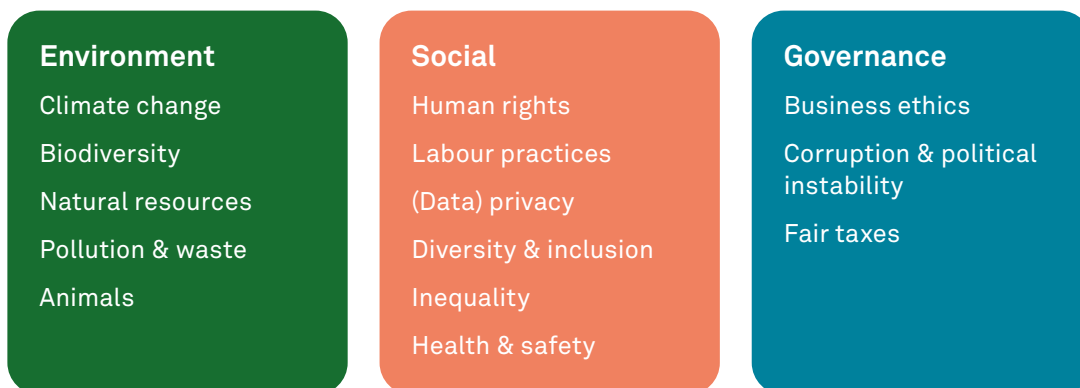
7. Outside In: Impact of sustainability factors and risks

Beyond minimising negative impact and optimizing positive impact, Triodos IM also assesses the impact of sustainability factors as in the outside world on our organisation and investments, resulting in potential sustainability risks such as physical/societal and transition risks. All investments made by Triodos IM are carefully screened against relevant sustainability factors, and include as such an assessment on the relevant sustainability risks.

The inside-out and outside-in approach are interlinked: both the positive selection approach and the use of Minimum Standards minimise the risk of potential environmental, social or governance (ESG) events or conditions that may cause an actual or a potential materially negative impact on the value of the investments (so-called sustainability risks). Therefore, we believe that the likely impact of sustainability risks on the returns of Triodos' investments is limited. It is our conviction that in the long-term sustainable investments offer more stable and higher risk-adjusted financial returns than non-sustainable investments. However, sustainability risks are complex and can occur in a manner that cannot reasonably be anticipated by Triodos IM, resulting in an unforeseen actual or potential material negative impact on the value of an investment.

7.1 Sustainability risks

To define relevant environmental, social and governance events or conditions which could cause a potential material impact on the value of the investment, Triodos IM uses sustainability (ESG) factors that could result in these sustainability risks, as in either physical/societal risks or transition risks. With physical/societal risks we mean a physical or societal event or condition that could cause an actual or a potential material negative impact on the value of the investment because of damage, supply chain/social disruption, availability of resources (sick leave, depletion of natural resources), etc. These risks can occur event-driven (acute) or because of longer-term shifts in patterns (chronic). Transition risks are risks resulting from required/desired changes from a societal perspective. This could occur because of policy or legal changes (including litigation claims), technological developments, market shifts or reputation issues because of changing customer or community perception. The sustainability (ESG) factors that Triodos IM currently considers are:



It should be noted that for different strategies and assets, sustainability factors differ in terms of relevance. Evidently, sustainability risks can vary from investment to investment, as can the impact of a sustainability risks on the return of that investment. Within the governance of risk management, the assessment of sustainability risks in the investment process lies primarily in the first line of defence, being the fund- and investment managers.

8. Our investment decision-making process

This section provides information on how sustainability risks are integrated in the investment decision-making processes. For each investment strategy Triodos IM uses a tailored approach. We separate the investment decision making process for Impact Equities & Bonds and Impact Private Debt & Equity.

Before we describe the investment process of IE&B and IPD&E we first describe the general starting points of our investment process.

It is our conviction that in the long term, sustainable investments offer more stable returns than non-sustainable investments. All investments are aimed to be allocated to sustainable investments. All investments are monitored for compliance to the positive selection and the negative screening criteria (as described in Section 6) to make sure they do not significantly harm the sustainable investment objective of the funds. In case of concerns, dialogue will be initiated and if this is deemed unsuccessful the relationship may be discontinued.

Applying both the positive selection and the negative screening criteria also comprise assessing and minimising risks of potential environmental, social or governance events or conditions that may cause an actual or a potential material negative impact on the value of the investments (so-called sustainability risks).

However, sustainability risks are complex and require subjective judgement. A comprehensive assessment of sustainability risks requires a judgement call on both the qualitative measures a company has taken as well as on its quantitative measures. To the extent that a sustainability risk occurs, or occurs in a manner that cannot reasonably be anticipated by the Fund Manager, there may be an unforeseen actual or potential material negative impact on the value of an investment, hence on the Net Asset Value of the fund. We believe that the likely impact of sustainability risks on the returns of the fund is limited, given the integrated assessment of sustainability risks in our investment process.

8.1 Impact Equities & Bonds

Embedding sustainability in the Impact Equities & Bonds Funds' investment process consists of the following steps:



Sustainability analysis of the company

The mission and strategy of the company is screened to ensure it contributes to one or more of the transition themes and that it meets our strict Minimum Standards.

Triodos IM applies two sustainability selection approaches in assessing potential investees which includes assessment on relevant sustainability risks:

- Step 1: Positive screening: potential investees are screened to align with the positive impact goals of the fund, taking relevant sustainability indicators into account.
- Step 2: Negative screening: to ensure that the fund does not finance companies or projects that are engaged in harmful activities, in addition to the positive screening, companies also have to pass the negative screening. The negative screening entails applying the Triodos Minimum Standards.

Potential investments that do not comply with the investment criteria as stated in step 1 and 2 are excluded.

Both the positive selection and the negative screening criteria minimise the risk of potential environmental, social or governance events or conditions that may cause an actual or a potential material negative impact on the value of the investments (so-called sustainability risks).

Integrated analysis

Companies that comply with the investment criteria undergo an integrated financial and sustainability analysis. The analysis focuses on impact, sustainability and materiality. In this process we identify a company's financial value drivers and evaluate/model the interplay between financials and sustainability.

Investment decision & Portfolio construction

The actual portfolio construction is based on a comprehensive risk and return analysis. Based on a long-term investment horizon, our investment approach results in concentrated portfolios with a low turnover. Weights are a function of factors such as upside potential (valuation), earnings and stock price momentum, portfolio manager conviction, liquidity, risk, requirements & limits etc.

Engagement & Monitoring

Companies eligible for investment are carefully monitored to ensure that they continue to meet our investment criteria, also on sustainability indicators which includes assessment on sustainability risks. Engagement with investee companies is one of the cornerstones of our investment strategy. It includes an active dialogue with companies, voting for change and shareholder collaboration.

Reporting

To live up its commitment as a responsible and transparent investor, Triodos IM regularly publishes information on the funds' investment activities in monthly, quarterly and annual reports. In order to measure the attainment of its sustainable investment objective, the funds report on impact indicators.

8.2 Impact Private Debt & Equity

Embedding sustainability in the Impact Private Debt & Equity Funds' investment process consists of the following steps:



Deal sourcing & Screening

The mission and strategy of the potential investees is screened to ensure alignment with the vision and mission of the fund. All investments are assessed on an individual basis. Triodos IM applies two sustainability selection approaches in assessing potential investees which includes assessment on relevant sustainability risks:

- Step 1: Positive screening: potential investees are screened to align with the positive impact goals of the fund, taking relevant sustainability indicators into account.
- Step 2: Negative screening: to ensure that the fund does not finance companies or projects that are engaged in harmful activities, in addition to the positive screening, companies also have to pass the negative screening. The negative screening entails applying the Triodos Minimum Standards, either directly or integrated in a fund-specific policy. When adherence to the Minimum Standards does not logically follow from the defined investment scope in the positive screening of the funds, the principles of the Minimum Standards are applied as per the discretion of Triodos IM as fund manager.

Potential investments that do not comply with the investment criteria as stated in step 1 and 2 are excluded.

Both the positive selection and the negative screening criteria minimise the risk of potential environmental, social or governance events or conditions that may cause an actual or a potential material negative impact on the value of the investments (so-called sustainability risks).

Due diligence

Triodos IM performs an in-depth and risk-based analysis (including relevant sustainability risks) of the potential investee during the due diligence phase, preferably on-site. In addition to financial and risk analysis, the sustainability approach of the potential investee is assessed.

Investment decision

The investment decision of the Fund Management is based on a thorough assessment of the due diligence's findings and analyses of the investee's financial, risk and sustainability performance aspects.

Signing & Closing

Inclusion in and adherence to certain fund-specific sustainability standards and/or exclusion lists is standard part of documentation (e.g. loan agreements, shareholder agreements).

Monitoring

Investees report on impact indicators on a regular basis, together with their financials. The impact indicators relate to the type of products or services offered, the sectors in which the investees are active, and certain criteria from the negative screening (e.g. for our financial inclusion funds, we monitor exposure to sensitive sectors).

Reporting

To live up its commitment as a responsible and transparent investor, Triodos IM regularly publishes information on the funds' investment activities in quarterly and annual reports. In order to measure the attainment of its sustainable investment objective, the funds report on impact indicators.

9. Our Risk Management framework

Our investment teams evaluate companies and projects through an Impact-Risk-Return lens. Just as we assess prospective investments for the risk that it is not able to achieve its expected financial return, we also assess whether the investment is able to achieve its expected positive impact. The inclusion of sustainability (ESG) factors into our investment process enables us to effectively assess and evaluate risks and opportunities beyond traditional risk management procedures.

9.1 Three lines of defence

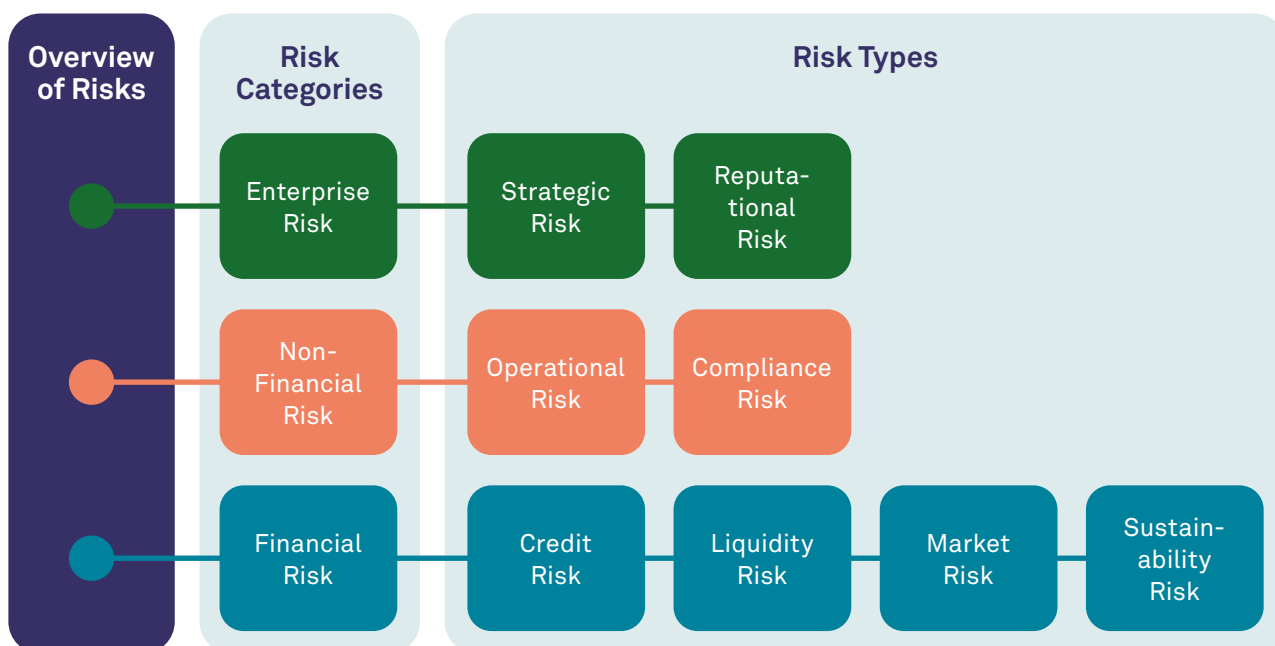
Triodos IM manages its funds using a three lines of defence model. This way of working ensures that co-workers in all functions within the organisation need to be fully aware of their responsibilities in the management of risk, whether they operate in a commercial, an operational or a control role. It ensures a segregating of responsibilities, and the realization that all co-workers have a role to play in managing the risk of Triodos IM funds. The following structure is applied:

- 1st line: risk management is a primary task for the first line of defence and is integrally implemented in the day-to-day business (business owners). Controls that are implemented in the organisation are part of the first line. For fund management activities, this implies the setting of risk limits in line with the risk management policies, maintaining these limits, and managing potential breaches.
- 2nd line: a second line of defence is tasked with: (i) setting and implementing policies regarding risk management, (ii) acting as an advisor to the organisation on topics that are risk related, and (iii) monitoring the effective management of risks. The second line of defence is organized independently from the first line to prevent potential conflicts of interests.
- 3rd line: Triodos Group Audit is responsible to test whether the risk management process in the first and second line operates effectively and whether the interaction between first and second line is according to standards.

9.2 Risk Taxonomy Framework

Within our Risk Taxonomy Framework, we identify risk categories and risk types as shown in the overview below. Given the importance of sustainability risks on financial risks and in alignment with the AIFMD and UCITSD, we have included sustainability risk as one of the financial risks in our Risk Taxonomy.

Triodos Risk Taxonomy Framework



The Impact & Financial Risk Committee (IFRC) is mandated with the governance of all financial risks, including sustainability risks as indicated in the Risk Taxonomy Framework. In the IFRC both the impact and the financial risks of investment funds are discussed and taken into account in the monitoring and decision-making process.

9.3 Assessment of sustainability risks

The assessment of sustainability risks in the investment process (as described in chapter 8) lies primarily in the first line of defence. The sustainability factors and risk types mentioned in chapter 7 serve as a guidance to the first line of defence to perform a risk-based assessment of the individual investment. It should be noted that for different strategies and assets, sustainability factors can differ in relevance. Evidently, sustainability risks can vary from investment to investment, as can the impact of a sustainability risk on the return of that investment. Not all factors and risk types are necessarily assessed for each investment; it is up to the discretion of the first line of defence to assess those that are deemed most relevant.

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. In particular, 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.

The information in this 10th March 2021 version of 'Triodos approach to Sustainability' was developed in view of compliance with the SFDR requirements as applicable as of 10th March 2021, which are the requirements of Regulation EU/2019/2088 itself (Level 1). It should be noted that (draft) requirements as in the final RTS for Level 2, which were recently published on the 2nd February 2021, are not yet incorporated in this version – but will be incorporated in (a) next version(s) of this document if and when these requirements are finalised and become applicable.

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