

## Triodos Impact Equities & Bond Funds' environmental footprints

### Why environmental footprinting

The Platform for Carbon Accounting Financials (PCAF) was launched in December 2015 at the Climate Conference in Paris. One of the main goals of the Platform was to create a standardized methodology to assess the carbon footprints of financial institutions, and to develop standard calculation methods to ensure comparability of the data across institutions. Triodos IM reports on the carbon footprint for its Impact Equities & Bond funds using this methodology.

### Carbon footprint

The carbon footprint of a company is its greenhouse gas emissions, as measured in CO<sub>2</sub> equivalents. An investment fund that holds shares of a company is by definition part owner of this company, relative to the number shares it owns. Consequently, the fund then bears responsibility for the company's greenhouse gas emissions, proportional to its ownership percentage. 'Carbon footprinting' of investment funds aims to show stakeholders the consequences that financial institutions' investment decisions have on the climate. By publicly reporting the carbon footprints of the funds, Triodos IM aims to enhance transparency about its impact on climate change and to stimulate the industry to contribute to accelerating the transition to a zero-carbon emissions economy.

### No goal itself

Triodos IM's Impact Equities and Bond funds invest in companies that have been identified to have positive contributions to seven transition themes. The Triodos Group Minimum Standards, which all companies must meet to be eligible for investment, include requirements on climate change policies and targets for greenhouse gas emissions reduction, especially for industries that we consider 'high-risk' due to their carbon emissions exposure. Responsible water use is also addressed in our minimum standards. Based on these, Triodos IM funds exclude companies active in oil and gas extraction, coal mining and production of energy from fossil fuels.

The carbon footprint of Triodos IM funds can be regarded as one of the results of the funds' investment strategy. The footprint figures help in monitoring the results of the strategy but are not a primary portfolio steering tool. Aiming for the lowest footprint in the

short term would result in a portfolio with a strong sector bias towards typically low-emissions industries, such as services companies and financials. The key for Triodos IM is to identify companies that conduct their business with best-practice climate policies, and to encourage laggards to align their operations with 'science based' emissions reduction targets, in line with goal of the Paris Climate Agreement.

### Methodology

The carbon footprint of investee companies is calculated in accordance with the Greenhouse Gas Protocol (GHG Protocol), a standard for emissions calculation. This protocol divides a company's emissions in three scopes:

- **scope 1** is a company's direct emissions,
- **scope 2** are emissions from purchased power (electricity, steam, heat or cooling for own use)
- **scope 3** includes emissions from purchased products / parts used, but also emissions caused by a company's products when used.

The data we report represent scope 1 and scope 2 emissions, which we obtain this data from external data providers. Meaningful scope 3 emissions are still being developed and, therefore, quality data is not sufficiently available for consistent reporting. Once sufficient scope 3 emissions become available, we will also include scope 3 emissions in the total footprint. For now, looking into scope 3 data can be useful e.g. to see which industries typically have a large emission exposure, upstream in their supply chain (mined materials), or downstream, as result of the emissions that their products produce over their life-time (fossil fuel vehicles).

### Calculation

A company's carbon footprint is calculated based on its enterprise value (EV), as recommended by PCAF, rather than on the more widely used market cap. We use EV because this encompasses the sum of all outstanding shares and bonds. Given that Triodos IM's Impact Equity and Bond funds also invest in corporate bonds, calculation based on EV best represents the exact share of total company value that has been financed by Triodos IM, and avoids double counting.

For the calculation of the footprints for the Triodos Impact Mixed Funds and Triodos Euro Bond Impact

Fund, we face limitations with regards to the types of bonds where greenhouse gas emissions data is available. We currently have access to data for corporate bonds and for sovereign bonds, but for 'sub-sovereign bonds' e.g. bond issued by local or regional governments, semi-governmental institutions, this data is not available. Also, for specific green or social bonds, either from corporates or from other issuers, comparable emissions data are often not available. Therefore, over all, the coverage of total assets for these funds are lower than Triodos IM's equities portfolio.

#### Absolute footprint

A fund's total, absolute carbon footprint in tons of CO<sub>2</sub> (tCO<sub>2</sub>) is the sum of the GHG-emissions (scope 1 and 2) of the companies in portfolio, based on the fund's share in each individual company.

The company's total GHG-emissions multiplied by our share in total enterprise value is the footprint per company. The portfolio's total carbon footprint is the sum of the funds 'owned' emissions of all investee companies in the portfolio. Data in the table below represent the absolute carbon footprint of each fund.

#### Relative footprint

The relative footprint is calculated by dividing the absolute footprint by the total value of the fund, thus arriving at a number of tons emitted per million euros invested into the fund. If, for example, the absolute footprint is 100 million tons CO<sub>2</sub> and the fund's total value is 100 million euro, the relative footprint would be 1 ton CO<sub>2</sub> per million euro invested, or 1 tCO<sub>2</sub>/mln. euro.

#### Water

The 'footprints' for water are calculated using the same method as the carbon footprint, in cubic meters (m<sup>3</sup>) of water. We include direct and indirect water usage, as well as water used upstream in its supply chain, to provide the most complete picture of a company's 'water footprint'.

#### Waste

The 'footprints' for waste are calculated using the same method as the carbon and water footprint, in tons of waste produced. We take a broad approach to waste production calculations, including waste-to-landfill and waste-to-incineration, both directly and indirectly.

#### Differences to benchmark

We report the difference between the fund's footprint and the benchmark index. A small environmental footprint is not the primary goal of our Impact Equity and Bond funds, though if the difference to the benchmark is less pronounced, we always look to understand why this is. Normally it is due to Triodos IM's low exposure to the financial industry, which does not produce a large scope 1 carbon water, or waste footprint.

#### Targets, scenarios and carbon neutrality

There are numerous initiatives that aim to accelerate the transition to a low carbon economy. Triodos Bank and Triodos Investment Management follow these with interest and participate selectively, where we can add value. We have monitored the work of the Taskforce on Climate-Related Financial Disclosures (TCFD, for example, and are active members of PCAF. As part of this group, Triodos is a co-sponsor of the Science-Based Targets initiative to create greenhouse gas emission reduction targets in line with climate science. This is important, because these targets specify how far, and how quickly, a company can reduce its greenhouse gas emissions to stay within safe environmental boundaries. At the same time, carbon neutrality is not a short-term goal in itself for Triodos. We want to avoid any unintended consequences that rigidly sticking to this agenda could create, such as social exclusions. However, by encouraging our investee companies to use renewable energy, and optimise energy efficiency, we aim to make the journey towards a low carbon society together. Triodos engages with companies to lower their carbon footprint in a number of ways, for example via the Investor Decarbonisation Initiative, coordinated by ShareAction.

### Triodos Global Equities Impact Fund

		MSCI	TGEIF	Difference to benchmark
CO <sub>2</sub>	Absolute footprint: tCO <sub>2</sub>	95,321	32,645	-66%
	Relative footprint: tCO <sub>2</sub> /EUR m invested	125	43	-66%
Water	Absolute water footprint: m <sup>3</sup>	26,384,616	11,749,136	-55%
	Relative footprint: m <sup>3</sup> /EUR m invested	34,718	15,460	-55%
Waste	Absolute footprint: tons	9,037	4,460	-51%
	Relative footprint: tons/EUR m invested	11.9	5.9	-51%

For the Triodos Global Equities Impact Fund portfolio, coverage of assets invested – by weight - is 100% for carbon, 100% for water, and 100% for waste.

## Triodos Pioneer Impact Fund

		MSCI	TPIF	Difference to benchmark
CO <sub>2</sub>	Absolute footprint: tCO <sub>2</sub>	27,842	15,023	-46%
	Relative footprint: tCO <sub>2</sub> /EUR m invested	98	53	-46%
Water	Absolute water footprint: m <sup>3</sup>	5,271,049	2,192,251	-58%
	Relative footprint: m <sup>3</sup> /EUR m invested	18,619	7,744	-58%
Waste	Absolute footprint: tons	1,827	1,269	-31%
	Relative footprint: tons/EUR m invested	6.5	4.5	-31%

For the MSCI World Index benchmark, coverage by weight is 98% for carbon, 98% for water data and 98% for waste. Coverage of assets invested – by weight – is 98% for carbon, 96% for water, and 95% for waste.

## Triodos Impact Mixed Fund - Neutral

		MSCI	TIMF	Difference to benchmark
CO <sub>2</sub>	Absolute footprint: tCO <sub>2</sub>	41,771	15,718	-62%
	Relative footprint: tCO <sub>2</sub> /EUR m invested	125	47	-62%
Water	Absolute water footprint: m <sup>3</sup>	11,561,971	5,685,370	-51%
	Relative footprint: m <sup>3</sup> /EUR m invested	34,718	17,072	-51%
Waste	Absolute footprint: tons	3,960	2,158	-46%
	Relative footprint: tons/EUR m invested	12	6	-46%

For Triodos Impact Mixed Fund – Neutral, the ecological footprint is based on the equity part (or 40%) of the portfolio. For the MSCI World Index benchmark, coverage by weight is 98% for carbon, 98% for water data and 98% for waste. Coverage of assets invested – by weight – is 100% for carbon, 100% for water, and 100% for waste.

## Triodos Euro Bond Impact Fund

		MSCI	TEBIF	Difference to benchmark
CO <sub>2</sub>	Absolute footprint: tCO <sub>2</sub>	8,842	4,105	-54%
	Relative footprint: tCO <sub>2</sub> /EUR m invested	134	62	-54%
Water	Absolute water footprint: m <sup>3</sup>	1,940,611	2,509,494	29%
	Relative footprint: m <sup>3</sup> /EUR m invested	29,453	38,088	29%
Waste	Absolute footprint: tons	855	600	-30%
	Relative footprint: tons/EUR m invested	13	9	-30%

For the iBoxx Europe ex Sovereign benchmark, coverage by weight is 56% for carbon, 56% for water data and 53% for waste. Coverage of assets invested – by weight – is 97% for carbon, 97% for water, and 97% for waste.

To enable comparability of the Triodos IM funds to other funds and benchmarks, the absolute CO<sub>2</sub>, water and waste footprints of the benchmark and the funds are calculated, based on the funds' total AUM. Moreover, the relative footprints show the emissions 'owned' by the funds, per million Euro invested.

### Data & sources

The footprints are calculated using carbon emissions data from Oekom research AG, and water and waste data from S&P Trucost (copyright © 2018 S&P Trucost Limited).

NB: Water and waste footprints may seem large in absolute terms, compared to other funds, as both

direct and indirect water use and waste are included. Comparing the exact scope of reporting is therefore important when comparing fund footprint data.

As company environmental performance are not reported quarterly there is a time-lag in the environmental footprinting. We use most recently available data from our providers, which means data from at least one year ago. In the tables above, we use GHG, water and waste data over FY 2018, and company enterprise value and revenues per end of this reporting year. The footprint is based on the portfolio compositions per end Q1 2019.

Triodos Investment Management, May 2019