

Our approach to impact

How we assess, monitor and contribute as an impact investor

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Triodos@Investment Management

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1. Introduction

At Triodos Investment Management (Triodos IM), we believe that how we invest defines the world we want to live in, and we recognise the instrumental role and creative power of money when used consciously.

As a financial institution, we use money consciously, as a driving force towards a society that is humane, ecologically balanced and works for the benefit of all.

This document describes our holistic approach to investing for impact. It sets out our beliefs as an impact investor. We describe the aim of our activities and how we assess the positive and negative impact of our investments and the sustainability risks. This document also includes information and policies on the integration of sustainability risks in the investment decision-making process as per article 3 of the Sustainable Finance Disclosure Regulation (SFDR).

2. Our sustainability and impact approach

As a values-based impact investor, we invest with the explicit intention to generate positive and measurable social and environmental impact alongside a financial return.

Through a holistic approach to sustainability, we strive for transformative impact, working towards a society in which all people can live a prosperous life on a thriving planet. We realise transformative impact by using a forward-looking lens on our investments: how does every investment contribute to the future we envision? This can be a big or small contribution but is always forward-looking. And we define impact not as 'better than average' but as impact for our future.

We make our investment decisions based on the principle of impact-risk-return. In addition to our primary focus to enhance positive impact, the second pillar of our investment approach is to minimise any negative impact and assess sustainability risk. The third pillar is generating additional value through advocacy and active stewardship to support and accelerate sustainable transitions (our investor contribution as opposed to the investee contribution).

Our investment compass

The four corners of our investment compass are intentionality, measurability, financial risk and return and investor contribution. Each plays an integral part in realising transformative impact.

Impact assessment requires both a rigorous methodology and the input and insights of subject matter experts. The proprietary process of our impact assessment therefore goes beyond current data and knowledge, builds on the latest industry developments and standards and gives room for development and innovation in our judgement forming. This is what makes Triodos unique. We are transparent about this approach and want to be held accountable for this. We encourage other financial institutions to follow a similar approach.

2.1 Intentionality

We invest with a clearly defined intent to achieve positive change through specific social and/or environmental outcomes. In addition, we aim to minimise any potential negative impact of our investments by testing every investment opportunity against our minimum standards and the Do No Significant Harm (DNSH) principle of the Delegated Regulation¹.

Transformative impact

Our ambition is to transform our current economic system by shifting mindsets and accelerating multiple sustainable transitions in society. We refer to this as transformative impact.

The core element of transformative impact is that it is intentional and forward-looking, aimed at transition to a more sustainable society. In our definition, a society in which all people can live a prosperous life on a thriving planet.

We finance solutions that can drive deep economic and societal changes. This is what we call system transformation. System transformation requires fundamental shifts in individual and collective mindsets and behaviours.

We have identified five transitions that are needed to achieve this transformation. Although they all require a distinct approach and relate to different, sometimes unique, groups of stakeholders, they form a holistic unity. 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). All our investments need to contribute to at least one of these transitions:

- The **energy transition**: from a fossil-based economy to a fossil-free economy
- The **food transition**: ensuring a transition towards sustainable, resilient and equitable food systems producing healthy, safe and nutritious food for all – a sustainable food system

¹ EU delegated regulation is similar to national legislation in terms of the impact and direct effect it generates. Delegated regulations can be used to supplement existing legislation on non-essential parts or amend specific and non-essential elements of a legislative act.

- The **resource transition**: transforming our current model of linear resource use through circular products, processes and business models – a circular economy
- The **wellbeing transition**: fostering peoples’ physical and mental health, as well as self-development, self-expression and healthy relationships – prosperous and healthy people
- The **social transition**: ensuring a cohesive society that respects human rights, provides equitable access to resources, products and services, and markets. A society that ensures that everyone’s voice is heard and builds collaborative relations – thriving and cohesive communities

2.2 Measurability

We measure and manage impact based on both qualitative and quantitative indicators that are related to the fund objectives. These fund objectives are derived from our impact vision. In multiple steps – the Triodos Impact Management Cycle – we translate this broad vision into measurable objectives, indicators and evaluation of this impact.

The strategies of all our funds are based on a Theory of Change. This theory is a description of how we expect our investment activities to lead to realising our vision on positive impact. It outlines a pathway which we expect to lead to our ultimate impact, considering underlying assumptions and risks along the way. For example, if we invest in a company that provides off-grid renewable energy access, we expect that access to clean and affordable energy will increase (most probably in pre-described underserved target groups) and that access to clean and affordable energy leads to improved quality of life for those target groups.

The impact areas form the sustainable objectives of the fund. We have identified indicators (aligned with market standards such as IRIS+ by the Global Impact Investing Network and climate targets such as SBTi) to measure the progress towards these objectives and to evaluate if and how we change our impact frameworks, targeted investments or our way of contributing (see also section 2.4).

2.3 Risk and return

Our investment decisions are based on the impact-risk-return principle. Only when a potential investment is deemed to be in line with the sustainable objectives of the fund, can it be considered for investment. At that point we consider whether the risk-return profile is in line with the mandate of the fund. We aim for market-rate financial returns with all our investment funds.

2.4 Investor contribution

To realise positive change, the expertise and role of the investor as a potential catalyser can be as important as the business and services offered by the portfolio companies. We want to contribute by financing change and by changing finance. Financing change is about which companies we select for investment and how we interact and engage with them to optimise positive impact. In addition, we aim to change the financial system from within by proving that impact investing is commercially robust and resilient. We strive for a sustainable, transparent and diverse financial sector that makes money work for positive change. We collaborate at a practical and strategic level with stakeholders, such as other values-based financial institutions, non-governmental organisations, governments and banking associations, to help grow a movement.

Financing change	Changing finance
We align capital with values and signal that impact matters	As a thought leader
We influence businesses through active engagement to improve or steer performance towards greater impact	As active corporate citizens
We grow markets that are new or under-supplied with capital	As a member of the finance community and by advocating for change
We catalyse impact by providing flexible capital	As network builders

3. Sustainability and impact assessment

Our sustainability and impact assessment of existing and potential investments focuses on four key aspects:

- 1) **Determining the positive impact** of any investment activity is the starting point, displayed in the contribution to one or more of our five transitions and supported by the fund's sustainability objectives.
- 2) **Mitigating and managing any negative impact** on people and planet our investments may have comes second but is no less important. We also assess external sustainability risks that may impact our investments.
- 3) Before we decide whether to invest in a project or company or not, we make an **integrated analysis of the impact, risk, and return aspects**. The analysis focuses on impact, sustainability and the principle of materiality. We identify a company's financial value drivers and evaluate/model the interplay between financials and sustainability prior to making investment decisions. Investments that match the impact, risk tolerance and return profile of the fund and fit within the portfolio are approved for investment.
- 4) **Accelerate transitions**. Beyond our investing activities, we also aim to contribute to accelerating transitions through active stewardship, advocacy and thought leadership.

3.1 Positive impact

Based on the Theory of Change for each fund, we have determined a set of objectives, indicators and internal targets that guide us towards enabling and accelerating the five transitions. These are captured in the Fund Impact Framework. To qualify for investment, each potential investee, project or bond should positively contribute to at least one of the sustainability objectives of the fund. An assessment of positive impact performance is made by considering relevant impact indicators and a qualitative assessment related to the fund objectives.

Besides our internal impact frameworks, investments are - where applicable and possible - assessed on EU taxonomy alignment.

3.2 Mitigate negative impact

Committed to minimise the negative impact of our investments, we distinguish between two perspectives in our assessment:

- **Inside-out perspective**
The negative impact on people and planet of the activities of our (potential) investees.
- **Outside-in perspective**
Sustainability risks related to our investees: environmental, social or governance events or conditions that could cause material negative impact on the investment.

3.2.1 Inside-out perspective

Even though we select for positive impact, it is practically impossible to rule out any negative effects. For each individual investment we therefore determine if the negative impact is limited and acceptable or can sufficiently be mitigated.

Companies and projects are screened against negative impact on people and planet that could jeopardise the sustainable transition that we envision. This includes the Triodos Bank minimum standards, the Principal Adverse Impacts (PAIs), the DNSH principle under SFDR and relevant sector-specific standards to ensure they do not cause any significant harm. They are excluded from investment if they fail this screening.

Triodos Bank minimum standards

The **Triodos Bank minimum standards** set out the absolute minimum standards that Triodos Bank applies for all its direct investment activities and credit agreements. The minimum standards are applied based on environmental, economic and social externalities. The minimum standards are based on our values.

For all financial activities of Triodos Bank, the minimum standards are embedded in the finance and investment processes. They clearly explain the products, processes and activities that Triodos Bank does not want to be involved in.

SFDR Do No Significant Harm & good governance

By exclusively offering article 9 products according to SFDR, we ensure all our (potential) investments classify as 'sustainable investments' as defined in article 2(17) SFDR. Our investment process therefore also includes screening on negative impact which covers the assessment of PAI, alignment with OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights and assessment of good governance practices. More information is available upon request in the Triodos framework due diligence policy and in the funds documentation such as the prospectus. The prospectus also describes the fund specific approach regarding additional PAIs. We update the PAI statement on our website annually to report on the adverse impact of our investments.

Sector insights: sector-specific negative impact

Depending on the operating context of the investment product, we may also consider sector-specific inside-out risks.

If a potential investment does not meet our minimum level of sustainability requirements, it is not eligible for investment. If an existing investment falls below this level due to changed circumstances, we will try to get it back on track. If this proves to be impossible, the ultimate consequence will be divestment.

A more detailed description can be found in our Principal Adverse Sustainability Impacts Statement on the Triodos IM website.

3.2.2 Outside-in perspective

Triodos IM also assesses the impact of external sustainability factors on our investments.

All investments made by Triodos IM are carefully screened against relevant sustainability factors and include as such an assessment of the relevant outside-in sustainability risks. In contrast to the inside-out perspective, the aim is not to minimise the risk but to assess and manage it.

To define environmental, social and governance events or conditions that 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, such as either physical/societal risks or transition risks.

Physical or societal risks are events or conditions that could cause actual or 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 be 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:

Environment

- Climate change
- Biodiversity
- Natural resources
- Pollution & waste
- Animal welfare

Social

- Human rights
- Labour practices
- (Data) privacy
- Diversity & inclusion
- Inequality
- Health & safety

Governance

- Business ethics
- Corruption & political instability
- Fair taxes

The risk profile of the fund determines the level of exposure to these and other types of risks. Our positive impact approach is a mitigating factor for most types of transition risk. One example is the potential introduction of a carbon tax. As we exclude investment in fossil fuels, the financial impact of such changes will be limited. Furthermore, we invest in companies that can be part of the solution of some of these risks such as financial inclusion for low-income farmers in emerging markets. This can generate positive outcomes and simultaneously reduce local consequences of inequality.

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.

More information on the integration of sustainability risks in the investment decision-making process can be found in the Triodos framework due diligence policy.

3.3 Accelerate transitions

In addition to our investment activities, we aim to accelerate transitions and promote sustainable long-term value creation for all our stakeholders. To this end, we frequently engage on environmental and social topics that are relevant to each investee's business models, as well as on general corporate governance issues. We engage to obtain information both in response to (potential) controversies and proactively on strategic topics. Furthermore, we believe that by active ownership (exercising voting rights for listed investments and board seats for private equity investments), we can exert a positive influence on a company's long-term strategy.

We also aim to influence the financial sector at a national and international level. Triodos Bank is one of the founding members of the Global Alliance for Banking on Values (GABV), a network of independent banks using finance to deliver sustainable economic, social and environmental development. The six Principles of Values-Based Banking are the foundation of our movement and distinguish how values-based banks are different. We aim to activate financial institutions to apply a triple bottom line approach, to only finance the real economy, to be transparent, to focus on long-term resiliency and to be client centred. We do this in various network initiatives, standard-setting bodies, policymaking institutions, and we proactively share our views, results and lessons learned. We also explicitly voice our vision of what should be financed in certain sectors in vision papers (to be found on our website) and by participating in standard-setting workgroups, such as PCAF and PBAF.

Annex – SFDR glossary

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.
- **‘SFDR CDR’** - Commission delegated Regulation EU/2022/1288 of 6 April 2022 supplementing SFDR, 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’** - Investment in an economic activity that contributes to an environmental objective - as measured 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’** - Environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters, as in article 2 (24) SFDR.
- **‘Sustainability risk’** - 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 be 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.
- **‘PAI’** - Principle Adverse Impact on sustainability factors as assessed by indicators as in Annex I of the SFDR CDR.
- **‘DNSH’** - Do No Significant Harm, as used and interpreted in the context of article 2(17) SFDR.
- **‘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.
- **‘Funds’** - The collective investment funds (UCITS or AIFs) managed by Triodos IM.

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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