

## Summary

# Principle Adverse Impact Statement (PAI)

Article 4 of the SFDR Regulation (EU) 2019/2088

Triodos Investment Management B.V. LEI code: 724500C17UZL2NC2DE67 considers principal adverse impacts (PAIs) of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of Triodos Investment Management.

This statement covers the reference period from 1 January 2022 to 31 December 2022.

### Background of the Principal Adverse Impact (PAI) Statement

The purpose of the PAI statement is to provide transparency to investors and other stakeholders on the level of harm of a financial market participant's (FMP) activities to the environment and to society. By June 30th, 2023, FMPs that consider principal adverse impacts of their investment decisions are required to publish a PAI statement. As the regulation does not provide an indication of what constitutes significant harm, financial market participants each formulate their own interpretation. Over time, we expect market practice to evolve, data availability and quality will improve, and potentially more guidance will follow as regulators, supervisors and public opinion (i.e., media) will express certain expectations.

### Consideration of Principle Adverse Impacts at Triodos Investment Management

At Triodos Investment Management, we believe that 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 that promotes the quality of life of all its members on a thriving planet, and that has human dignity at its core. We do so for over 30 years already. We have identified five interlinked transitions that we deem crucial to transform the economy and society as a whole: the energy transition, food transition, resource transition, societal transition and the wellbeing transition. Our mission as a financial institution is to enable and accelerate these vital transitions. We do this by financing change: investing in progressive and sustainable businesses and projects, as well as by changing finance: influencing the financial sector and the shape of the economic system at a national and global level, to help deliver our mission.

In practice, financing change means that we invest with a clear intentionality and robust approach to optimise positive impact in relation to the above-mentioned transition themes and to minimise adverse impact. Each potential investment must significantly contribute to at least one of an investment fund's sustainability objectives to qualify for investment. These sustainability objectives are rooted in a fund specific theory of change: a description of how Triodos expects investment activities to lead to positive impact.

For every investment, a positive impact assessment is followed by a targeted adverse impact screening based on the Triodos Minimum Standards, potential controversies, international- and sector standards as well as specific PAI indicators that are not yet covered by the above. The majority of the PAI indicators are included in the Triodos Minimum Standards assessment. Certain PAI indicators lead to immediate exclusion based on hard quantitative thresholds. The Minimum Standards also prescribe qualitative thresholds for unacceptable adverse impact. Triodos Investment Management considers all mandatory PAIs on sustainability factors. Moreover, Triodos Investment Management has selected two additional (optional) indicators, one climate and environmental related indicator from Table 2 (no. 4: Investments in companies without carbon emission reduction initiatives) and one indicator from Table 3 on social and employee matters, respect for human rights, anti-corruption and anti-bribery below (no. 15: Lack of anti-corruption and anti-bribery policies). The consideration of both mandatory and additional PAIs are incorporated in the due diligence process and any investments with significant harm are excluded upfront and checked for regularly and ad hoc during the monitoring phase.

In addition, as a responsible manager of capital, Triodos acts as a steward of people and planet. We invest only in companies that contribute to the transition towards a sustainable society. As an investor, we see it as our duty to act in the best of interest of all stakeholders. We engage with companies and institutions to drive positive change and to minimise adverse impact. Where appropriate, we discuss governance, environmental and social issues relevant to their specific business models. These discussions

often already take place before a company is added to the investable universe or to the portfolio, as we assess companies quantitatively and qualitatively for their contribution to our sustainable transition themes and alignment with our minimum standards. We typically address companies with open, constructive dialogue to understand their business proposition and sustainability challenges more deeply. Only if a company has breached or is nearing a breach of our investment criteria, will our engagement become more forceful, and, if deemed unsuccessful, the company will be divested.

### **2022 Results**

Following our investment process described above, we do not tolerate any significant harm in our portfolios. Based on the 2022 data, there are no indications of any significant adverse impact in our portfolios. The explanation and actions taken and planned to reduce any adverse impact is described per indicator below. This covers all investment activities of Triodos IM over the course of 2022. The key action, across all funds for 2023 is to engage with our investment companies on reduction of greenhouse gas emissions in their operations and supply chains.

### **Data challenges and limitations**

Data availability and data quality for the PAI indicators vary across asset classes. Examples include low data coverage for specific indicators or use of proxy data due to absence of direct data. In the case that proxies are used to add the missing datapoints, the quality is questionable as proxies are based on sector and country data, thus not considering other specific factors that might play a role for the investment case. From market learning exercises, we learned that proxy results may vary greatly between providers. For our Impact Equities & Bonds investments (61% of AUM in 2022), data is acquired from a third-party data provider. The coverage is low for some indicators and not suitable to draw any portfolio level conclusions. For our Impact Private Debt & Equity investments (39% of AuM in 2022), data is self-reported by investees and complemented with proxies. Limitations mostly relate to the extent to which investees disclose information, the quality and the timing of delivery. The investment & analysis teams have multiple checks in place to review the reliability and validity of the data.