

# Article 10 (SFDR) Website disclosure

## Triodos Microfinance Fund

A Sub-Fund of Triodos SICAV II  
SFDR product category: Article 9

Version July 2023

This document constitutes the website product disclosure for financial products that have sustainable investments as their objective. Under the EU Sustainable Finance Disclosure Regulation (SFDR), all Article 9 SFDR funds are required to publish sustainability-related information document on their website.

Sustainability-related information is also available in the annex to the [Prospectus](#) and the [Annual report](#) of Triodos SICAV II. Unless otherwise defined herein, capitalised terms shall have the meaning given to them in the Prospectus of Triodos SICAV II.

**Triodos**  **Investment Management**

## A. Summary

**B. No significant harm to the sustainable investment objective:** To select only those investments that do not cause significant harm to the Sub-Fund's social sustainable investment objectives, every new investment is assessed in line with the Triodos Bank Minimum Standards. If a potential Investee is found to cause significant harm, it is excluded from investment. All applicable principal adverse impact indicators on sustainability factors are taken into account in the investment process. The Triodos Bank Minimum Standards, that are aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, also set out the minimum standards for employee relations, remuneration, taxes and other corporate governance topics that Investees must meet in order to be eligible for investment.

**C. Sustainable investment objective of the financial product:** The overall objective of the Sub-Fund is to offer investors a financially and socially sound investment in Financial Inclusion, therefore in Social Inclusion, contributing to an accessible, well-functioning and inclusive financial sector across the globe.

The sustainable investment objectives of the Sub-Fund are:

- To promote individual wellbeing through the advancement of Financial Inclusion;
- To support the transition to equitable and sustainable local economies; and
- To transform the financial system for a sustainable future

To attain the sustainable investment objectives, the Sub-Fund will invest, either directly or indirectly, in Financial Services Providers contributing to Financial Inclusion and intermediary investment vehicles and UCIs contributing to Social Inclusion in developing countries and emerging economies, and to a limited extent in developed countries.

**D. Investment strategy:** Triodos Investment Management B.V. (Triodos IM) adopts an impact management approach into the investment process in order to attain the

sustainable investment objectives of the Sub-Fund:

- *Analyse transformative potential:* Each Investee that is selected for the Sub-Fund's portfolio should positively contribute to at least one of the sustainability objectives of the Sub-Fund. The Sub-Fund primarily invests, either directly or indirectly, in Financial Services Providers such as Microfinance Institutions and SME banks.

- *Mitigate negative impact:* Investees are screened against negative impact on people and planet (inside-out lens) that could jeopardise the sustainable transition that is envisioned. This includes the Triodos Bank Minimum Standards, do-no-significant-harm principle under the SFDR Delegated Regulation and any relevant sector-specific negative impacts to ensure they do not cause any significant harm. Investees are excluded when they significantly harm sustainable objectives and/or do not follow good governance practices.

- *Monitoring, measuring and managing impact:* An extensive review is performed annually, addressing financial and sustainability performance of the Investee to make sure they do continue to contribute to the Sub-Fund's sustainability objectives and that they do not significantly harm them. In case of concerns, dialogue will be initiated and if this is deemed unsuccessful the relationship may be discontinued.

- *Accelerate transitions:* Triodos IM is an active and involved investor and integrates active stewardship in every aspect of the investment management process to promote sustainable long-term value creation for all its stakeholders and to accelerate sustainable transitions.

**E. Proportion of investments:** The Sub-Fund invests at least 75% of its Net Assets in sustainable investments. The remaining (maximum 25%) will be cash or cash equivalents held as ancillary liquidity and derivatives for hedging purposes. The Sub-Fund may invest up to 10% of its Net Assets in UCIs. At least 75% of the investments of the Sub-Fund will be sustainable investments that contribute to a social objective, while no commitment is made for sustainable investments with an environmental objective or

investments aligned with the Taxonomy Regulation.

**F. Monitoring of sustainable investment objective:** The Sub-Fund uses multiple indicators to measure, monitor and report its sustainability performance, with regard to its sustainable investment objectives. Investees report on these indicators on a periodic basis through uploading their data to Triodos IM's online Investee Portal. The data is reviewed by Triodos IM's investment management and impact & financial performance measurement teams. If there are any inconsistencies, the investment management team clarifies these with the Investee before final approval. On an annual basis, Triodos IM assesses the extent to which the sustainable investment objective has been achieved.

**G. Methodologies:** The Sub-Fund uses the Triodos Impact Management Cycle as an overarching tool to manage its impact. Impact management is about actively steering our means to optimise the Sub-Fund's positive impact and minimise its negative impact. In order to do so, Triodos IM has developed a Theory of Change, which serves as a basis to set impact objectives, and set and measure sustainability indicators. Triodos IM verifies that the outcomes meet the Sub-Fund's targets and expectations and if not, why not, and defines what actions should be taken (i.e. capital allocation decisions, engagement or thought leadership) to optimise the contribution to impact.

**H. Data sources and processing:** To measure progress towards these long-term impact objectives certain indicators are established and will be measured periodically. To collect the appropriate information to screen for the positive impact of the Sub-Funds' assets, Triodos IM's investment management team performs an extensive due diligence. During the lifetime of the investment, progress against agreed KPIs is monitored via a standardised quarterly sustainability questionnaire submitted by the Investee. Quarterly data is reviewed by Triodos IM's investment management and impact & financial performance measurement teams, and approved by the investment management team. The data delivered is further enriched with the use of proxies on data points where the data quality is poor or missing.

**I. Limitations to methodologies and data:** The sustainable objectives of the Sub-Fund are based on a Theory of Change, which may contain flawed assumptions. Triodos IM addresses this limitation by evaluating the Sub-Fund's progress and adjusting the strategy as part of the annual learning and adapting aspect of the Impact Management Cycle. Evidence of impact is dependent on the data collection abilities of the Investees. A common limitation is Investees' limited ability to deliver the same quality of data for each delivery, partly caused by the fact that they are also dependent on the data delivered to them by their clients. In the case that proxies are used to add the missing or incorrect datapoints, the quality is limited by the fact that the proxies are on a sector and country level, thus not considering other specific factors that might play a role. To address the limitations, Triodos IM has multiple checks and balances in place to make sure that the data is of good quality.

**J. Due diligence:** The due diligence carried out on the underlying assets consist of a positive screening in which the transformative potential is assessed, followed by a negative impact assessment to screen the impact on people and planet (inside out). The impact of external sustainability factors on the Sub-Fund's investments (outside in) is assessed which results in potential sustainability risks, such as physical / societal and transition risk. A due diligence policy and process is in place at Triodos IM to ensure that all the necessary stages and steps of due diligence are followed before the decision to invest is taken.

**K. Engagement policies:** Impact investing includes the careful selection of Investees, as well as proactively supporting or advocating for Investees to increase their positive and reduce or avoid negative impact. To do so, Triodos IM frequently engages on environmental, social and governance topics that are relevant to each Investee's business models, funds or sector context as well as on general corporate development and business strategy issues. This is done through 1) company engagement, 2) active ownership and 3) advocacy - Influencing decisions within policy-making, economic, and social institutions.

## **B. No significant harm to the sustainable investment objective**

To select only those investments that do not cause significant harm to the Sub-Fund's social sustainable investment objectives, every new investment is assessed in line with the Triodos Bank Minimum Standards. If a potential Investee is found to cause significant harm, it is excluded from investment. All applicable principal adverse impact indicators on sustainability factors are taken into account in the investment process. The Triodos Bank Minimum Standards, that are aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, also set out the minimum standards for employee relations, remuneration, taxes and other corporate governance topics that Investees must meet in order to be eligible for investment.

### **Principal Adverse Impact indicators**

The mandatory indicators for adverse impact on sustainability factors and two selected optional indicators on sustainability factors are analysed and assessed as part of the overall investment process. Triodos IM selected one environmental optional principal adverse impact (PAI) indicator from Table 2 and one social optional PAI indicator from Table 3 of Annex I of the SFDR Delegated Regulation, in particular no. 4. Investments in companies without carbon emission reduction initiatives and no. 15. Lack of anti-corruption and anti-bribery policies respectively.

The data for the mandatory and optional PAI indicators is collected during the due diligence on Investees and is based either on information obtained directly from the Investee, a third-party expert, or on information from public sources. In case information is not (yet) available or not feasible to obtain, Triodos IM uses proxy indicators supplied by reputable institutions with experience in the relevant industry. Both the assessment and the conclusions of the potential adverse impacts on sustainability factors as well as the positive impact of the Sub-Fund's investments are recorded and translated into monitoring and reporting items in line with the Triodos IM Due Diligence Policy.

For the selection of the optional PAI indicators, Triodos IM has assessed the degree of relevance and data availability from an entity perspective. The level of harm is assessed within the context of the Sub-Fund and the Investee. The PAI indicators are classified as low, medium or high level of (potential) harm. In case a medium or high level of harm is assessed for a certain PAI indicator, Triodos IM's investment management team provides further clarification and to what extent this can be mitigated and managed by the Investee and/or by Triodos IM. In case no satisfactory clarification nor mitigatory measures are possible, the Investee is not deemed suitable for investment. When proxy data is the only data available (country and sector level data), a qualitative assessment of the Investee exposure is discussed in the investment proposal for medium and high levels of harm. When PAI indicators are not applicable (for example the availability of certain policies for small enterprises), Triodos IM's investment management team can apply qualitative assumptions as per the Triodos IM Due Diligence Policy.

**Alignment with OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights**

Prior to being selected for investment and for the entire duration of the investment, (potential) Investees are screened in line with the Triodos Bank Minimum Standards that sets out the products, processes and activities that Triodos IM excludes from investments. The Triodos Bank Minimum Standards cover the OECD guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Such due diligence screening takes place according to the Triodos IM Due Diligence Policy and includes both desk research and, where applicable, on-site due diligence. An integral part of this process constitutes the assessment of governance, employee relations, customer treatment, tax arrangements and sustainability risks, as well as checks of policies and mechanisms to ensure alignment with the above-mentioned standards depending on the nature of the investment in question. Should a breach take place after investing, Triodos IM engages with the Investee to remediate the breach or assesses whether divestment is required.

## **C. Sustainable investment objective of the financial product**

The overall objective of the Sub-Fund is to offer investors a financially and socially sound investment in Financial Inclusion, therefore in Social Inclusion, contributing to an accessible, well-functioning and inclusive financial sector across the globe.

The sustainable investment objectives of the Sub-Fund are:

- To promote individual wellbeing through the advancement of Financial Inclusion;
- To support the transition to equitable and sustainable local economies; and
- To transform the financial system for a sustainable future

To attain the sustainable investment objectives, the Sub-Fund will invest, either directly or indirectly, in Financial Services Providers contributing to Financial Inclusion and intermediary investment vehicles and UCIs contributing to Social Inclusion in developing countries and emerging economies, and to a limited extent in developed countries.

No reference benchmark has been designated for the purpose of attaining the sustainable investment objectives.

## **D. Investment Strategy**

Triodos IM adopts an impact management approach into the investment process in order to attain the sustainable investment objectives of the Sub-Fund:

- Analyse transformative potential:

Each Investee that is selected for the Sub-Fund's portfolio should positively contribute to at least one of the sustainability objectives of the Sub-Fund. The Sub-Fund primarily invests, either directly or indirectly, in Financial Services Providers such as Microfinance Institutions and SME Banks. These types of financial institutions provide financial services to micro-entrepreneurs, low-income people and SMEs that have no or limited access to basic financial services. Providing access to financing to these underserved groups fuels social and economic development and the Sub-Fund thereby supports the promotion of individual wellbeing, the transition to equitable and sustainable local economies and the transformation of the financial system for a sustainable future.

The Sub-Fund uses the in-house developed 'Triodos Sustainable Banking Assessment' (SBA) to objectify the sustainability assessment. The SBA assesses the sustainability performance based on an extensive questionnaire that addresses the following themes: social, governance and environment. The SBA results in a sustainability score. A minimum sustainability score is required to qualify as an investment for the Sub-Fund. The sustainability score of the SBA considers among others good governance, management & staff, appropriate product range, responsible finance, and environmental impact.

- Mitigate negative impact:

Investees are screened against negative impact on people and planet (inside-out lens) that could jeopardise the sustainable transition that is envisioned. This includes the Triodos Bank Minimum Standards, do-no-significant-harm principle under the SFDR Delegated Regulation and any relevant sector-specific negative impacts to ensure they do not cause any significant harm. Investees are excluded when they significantly harm social objectives and/or do not follow good governance practices.

- Monitoring, measuring and managing impact:

Investees frequently report on their financials, impact data and other data. The impact data relate to the type of financial products offered, the sectors that are served, additional programs such as training for customers, and the criteria from the negative screening as formulated above. An extensive review is performed annually, addressing financial and sustainability performance of the Investee to make sure they do continue to contribute to the Sub-Fund's sustainability objectives and that they do not significantly harm the sustainability objectives. In case of concerns, dialogue will be initiated and if this is deemed unsuccessful the relationship may be discontinued. Collected quantitative and qualitative information form the basis of Triodos IM's impact management efforts. Triodos IM reviews its contribution to the sustainable investment objectives of the Sub-Fund and progress realised, and makes adjustments to the investment approach if and when needed.

- Accelerate transitions:

Triodos IM is an active and involved investor and integrates active stewardship in every aspect of the investment management process to promote sustainable long-term value creation for all its stakeholders and to accelerate sustainable transitions. This includes all efforts of Triodos IM: besides the provision of financing to its Investees as per the other three elements of Triodos IM's impact management approach described above, this includes the use of social and environmental action plans and engagement on the progress made by Investees. In case of equity investments, the Sub-Fund aims to take a board position, bringing in expertise to develop environmental, social and governance aspects of the Investee.

### **Policy to assess good governance practices of investee companies**

The assessment of good governance practices of Investees performed by Triodos IM looks at the structure of rules, practices, and processes used to direct and manage a company or a project and aims to balance the interests of all stakeholders. It is an integral part of the due diligence phase and may vary in depth, complexity and scope depending on the Investee and context of a transaction. It covers a wide range of aspects but specifically checks for irregularities and compliance with best practices in at least the following areas: accounting, remuneration, business (mal)practices, corporate structure, disclosures, stakeholder management, anti-money and counter-terrorism financing, and taxation. At a minimum, all



investments must demonstrate a sufficient level of good governance, and in case of identified controversies demonstrate an acceptable action plan for improvement in order to be considered for investment. This process is described in more detail in the Triodos IM Due Diligence Policy. The assessment of good governance practices is carried out by the investment manager or analyst and is included in the investment proposal, which is discussed and subsequently approved by Triodos IM’s investment committee. Existing investments undergo periodic review and monitoring, which includes the review and monitoring of good governance practices.

### E. Proportion of investments



The Sub-Fund invests at least 75% of its Net Assets in sustainable investments. The remaining (maximum 25%) will be cash or cash equivalents held as ancillary liquidity and derivatives for hedging purposes. Due to the neutral nature of these investments, they will not qualify as sustainable investments. The Sub-Fund may invest up to 10% of its Net Assets in other UCIs.

Due to the illiquid nature of the investments of the Sub-Fund and the need to retain sufficient buffers in the form of cash or cash equivalents to allow for redemption requests, the actual percentage of non-sustainable investment (cash or cash equivalents) might exceed the above stated percentage for a limited period of time of maximum twelve months. Should such a situation arise, the Sub-Fund will take reasonable actions to remedy such situation as soon as possible, taking due account of the interests of its shareholders.

#### Use of derivatives to attain the sustainable investment objective

To allow effective de-risking of its partner MFIs and their borrowers, the Sub-Fund strives to offer as much as possible local currency financing. In parallel, in order to mitigate open market exposures, the Sub-Fund fully hedges the principal of each investment against the Sub-Fund’s reference currency and, to the extent economical to do so, the Sub-Fund also seeks to hedge local currency interest flows. Derivatives are always related to MFI investments and therefore captured in the MFI investments portfolio.

The Sub-Fund’s preference for Local Currency lending reflects both market demand as well as the impact objective of strengthening responsible finance and the financial stability of the MFIs and their clients in line with the sustainable investment objective of the Sub-Fund.

### Minimum share of sustainable investments with an environmental objective

0%. The Sub-Fund has a social sustainable investment objective and thus, it does not commit to make sustainable investments with an environmental objective.

### Minimum share of sustainable investments with a social objective

At least 75% of the investments of the Sub-Fund will be sustainable investments that contribute to a social objective.

### Sustainable investments with an environmental objective aligned with EU Taxonomy

The Sub-Fund has a social sustainable investment objective and thus, it does not commit to make sustainable investments aligned with the Taxonomy Regulation.

The Sub-Fund does not invest in fossil gas or nuclear energy related activities that comply with the EU Taxonomy.

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.

#### 1. Taxonomy-alignment of investments including sovereign bonds\*

- 0% Taxonomy-aligned (no fossil gas & nuclear)
- 100% Non Taxonomy-aligned



#### 2. Taxonomy-alignment of investments excluding sovereign bonds\*

- 0% Taxonomy-aligned (no fossil gas & nuclear)
- 100% Non Taxonomy-aligned



This graph represents up to 100% of the total investments. As the Sub-Fund does not commit to making sustainable investments aligned with the EU Taxonomy, the proportion of sovereign bonds, if any, in the Sub-Fund's portfolio will not impact the proportion of sustainable investments aligned with the EU Taxonomy included in the graph.

\* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures.

### Minimum share of investments in transitional and enabling activities

The Sub-Fund has a social sustainable investment objective and thus, it does not commit to make sustainable investments aligned with the Taxonomy Regulation.

### Minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy

As the Sub-Fund has a social objective, it does not aim to invest in Taxonomy-aligned activities.

### Investments included under “#2 Not sustainable”: purpose and minimum environmental or social safeguards

Although the Sub-Fund does not plan to have other investments than sustainable investments, it can hold cash and liquid assets as ancillary liquidity as well as currency derivatives.



These assets do not affect the delivery of the sustainable investment objectives of the Sub-Fund on a continuous basis. Firstly, they are used – in limited proportion – to support the proper liquidity and risk management of the Sub-Fund. The Sub-Fund aims to retain sufficient buffers in the form of cash or cash equivalents to allow for redemption requests whilst remaining invested in relatively illiquid investments that contribute to the sustainable investment objectives of the Sub-Fund. As the Sub-Fund only hedges to limit currency risk, the hedging does not affect the sustainability objective of the Sub-Fund either. Secondly, Triodos IM regularly assesses whether the counterparties for these assets comply with the four pillars of the UN Global Compact, using data from a third-party provider. UN Global Compact is a principle-based framework that calls companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals. Furthermore, Triodos IM assesses its counterparties' policies and sustainability performance.

## **F. Monitoring of sustainable investment objective**

A combination of quantitative and qualitative data form the basis of Triodos IM's impact monitoring efforts. The Sub-Fund uses among others the following indicators to measure, monitor and report its sustainability performance, with regard to its sustainable investment objectives:

To promote individual wellbeing through the advancement of Financial Inclusion:

- Total number of loan clients reached
- Total number of saving clients reached
- Average loan amount
- Average savings amount
- Percentage female clients
- Percentage rural clients
- Total number of borrowers that received an agricultural loan
- Total number of clients that made use of an energy efficiency and sustainability related loan
- Total number of households that received an affordable housing loan
- Total number of students that took out an educational loan

To support the transition to equitable and sustainable local economies:

- Total number of end-clients being SME clients
- Fund's carbon footprint (scope 1, 2 and 3 emissions in tonnes of CO<sub>2</sub>)

To transform the financial system for a sustainable future:

- Percentage of Investees that have an exclusion list
- Percentage of Investees that offer financial literacy training
- Number of equity investments with active board membership held on behalf of the Sub-Fund

Investees report on these indicators on a periodic basis through uploading their data to our online Investee Portal.<sup>1</sup> The data is reviewed by Triodos IM's investment management and impact & financial performance measurement teams. If there are any inconsistencies, the investment manager clarifies these with the Investee before final approval.

In addition, an annual review on the financial, social and environmental performance of each Investee is also conducted by the Triodos IM's investment management team, which may be done as a site-visit or remotely. The review covers Investee progress according to the positive impact objectives, actions or conditions subsequent to mitigate (potential) adverse impact, and any changes to sustainability risk. In the case of equity investments, Investees may be visited or followed up with more frequently.

On an annual basis, Triodos IM assesses the extent to which the sustainable investment objective has been achieved. The results of this assessment are used as part of Learning and adapting phase of the Impact Management Cycle (section G). The Sub-Fund reports to investors on sustainability performance on a regular basis.

Furthermore the investment monitoring process has been translated into controls on the most material operational and financial risks. These controls are assessed as part of the ISAE 3402 audit on Triodos IM, as performed by an external auditor. The Sub-Fund reports to investors on sustainability performance on a regular basis.

## **G. Methodologies**

Triodos IM invests to generate social and environmental impact alongside a healthy financial return. It uses the Triodos Impact Management Cycle as an overarching tool in its methodology to manage its impact. Impact management is about actively steering the means to optimize positive impact and minimize negative impact in the context of the risk/return profiles of the funds managed by Triodos IM.

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<sup>1</sup> In the case where the investee is not able to report on its Scopes 1, 2 and 3 carbon emissions, proxy data is used.



The impact strategy of the Sub-Fund is determined, taking into account factors such as the risk/return profile, asset class, availability of investment opportunities and regional focus. The Sub-Fund determines this impact strategy based on its vision. In order to do so, Triodos IM has developed a Theory of Change as part of the strategy phase of its Impact Management Cycle. The Theory of Change serves as a basis to set impact objectives and sustainability indicators. In the monitoring phase Triodos IM measures the impact of its investment activities. In the subsequent learning and adapting phase Triodos IM verifies that the outcomes meet the targets and expectations and if not, why not, and Triodos IM defines what actions should be taken (i.e. capital allocation decisions, engagement or thought leadership) to optimise its contribution to impact. Learning and adapting takes place on four levels: the investment level, the fund level, Triodos IM level and increasingly on Triodos Group level. This cycle is repeated continuously as a way to steer on and manage the impact of the Sub-Fund's investments.

## H. Data sources and processing

To determine alignment with the sustainability objective, several data sources are used. The first and most extensive data source is the collection of a standardised quarterly sustainability questionnaire, which is filled by the Investee and delivered to the Sub-Fund via the internal Investee Monitoring Portal. The questionnaire addresses all datapoints that are needed to attain the sustainability objective. To control the quality of the data, Triodos IM's investment management team reviews and challenges the Investee on their answer. Once Triodos IM's investment management team is satisfied about the data quality, they provide approval. If information is not (yet) available or not feasible to obtain, Triodos IM uses proxy data (comparable data from the sector or country) provided by reputable institutions with experience in the relevant industry. The data is processed in-house, allowing for a consistent approach. The processing of data is done with the help of automated templates

generated by the applications FrontInvest and Qlik sense, in which data points are compared from quarter to quarter. If quarterly discrepancies seem abnormally high, Triodos IM's investment management team reaches out to the Investee for clarification, making sure that discrepancies are not due to poor data.

## **I. Limitations to methodologies and data**

The sustainable objectives of the Sub-Fund are based on the Sub-Fund's Theory of Change. A Theory of Change is a description of how Triodos IM expects the Sub-Fund's investment activities to lead to positive impact. It outlines a pathway which Triodos IM expects to lead to the Sub-Fund's ultimate impact, considering underlying assumptions and risks along the way. These assumptions might be flawed. The annual learning and adapting aspect of the Impact Management Cycle serves to reassess and mitigate this risk where possible.

Evidence of impact is dependent on the data collection abilities of the Investees. A common limitation is Investees' limited ability to deliver the same quality of data for each delivery, partly caused by the fact that they are also dependent on the data delivered to them by their clients. There can also be instances where adequate data is not available, or cannot be tracked reliably. In certain instances, some questions might be left unanswered by the portfolio companies due to lack of data availability or lack of understanding of questions. As laid out under section H, Triodos IM has multiple checks and balances in place to make sure that the data is of good quality.

In the case that proxies are used to add the missing datapoints, the quality is limited by the fact that the proxies are on a sector and country level, thus not considering other specific factors that might play a role. Due to this limitation, the analysis will use the questionnaire data if available in good quality.

## **J. Due diligence**

The due diligence carried out on the underlying assets consists of a positive screening in which the transformative potential is assessed, followed by a negative impact assessment to screen the impact on people and planet (inside out), which includes the Triodos Bank Minimum Standards, do no significant harm principle and any sector specific negative impacts. The impact of external sustainability factors on Triodos IM's investments (outside in) is assessed which results in potential sustainability risks, such as physical / societal and transition risk. Every investment case considers impact, risk and return.

This is described in more detail in section D 'Investment strategy' in which it is also explained how Triodos IM even further accelerates transitions by integrating active stewardship in every aspect of the investment management process. A due diligence policy and process is in place at Triodos IM to ensure that all the necessary stages and steps of due diligence are followed before the decision to invest is taken. Furthermore the due diligence process has been translated into controls on the most material operational and financial risks. These controls are assessed as part of the ISAE 3402 audit, as performed by an external auditor on Triodos IM.

## K. Engagement policies

Impact investing dictates which Investees the Sub-Fund finances and how. This includes the careful selection of Investees, as well as proactively supporting or advocating for Investees to increase their positive and reduce or avoid negative impact. Types of engagement include requesting information and disclosure, investigating alleged shortcomings of an Investee's responsible management, sharing expertise, encouraging and tracking companies' performance towards pre-defined goals, voting, and board membership. This is done with the aim to create long term value for the benefit of society and for the planet whilst enhancing the long-term value creation potential of the company.

As such, Triodos IM frequently engages on environmental, social and governance topics that are relevant to each Investee's business model, fund or sector context as well as on general corporate development and business strategy issues. Triodos IM undertakes the following range of activities in its active investment approach, depending on the asset class.

1. Company engagement
2. Active ownership
3. Advocacy | Influencing decisions within policy-making, economic, and social institutions.

### Engagement procedures

As the first step in the investment selection process is a screening on positive impact potential, followed by the strict Triodos Bank Minimum Standards screening, significant harmful activities are excluded from portfolios ex-ante. Key opportunities for improvement and for longer term value creation are identified and provide the basis for building trusting relationships with Investees. The engagement agenda is prepared by a range of department representatives and approved in the Triodos IM Impact Committee. Engagement activities are monitored on a quarterly basis in Triodos IM's Impact Financial Risk Committee and reported upon annually.

### **Sustainability-related controversies**

In the case of (alleged) adverse impact, the Investee is contacted to clarify and investigate the allegations or information, and to assess the severity of the incident as well as the responsibility and accountability of the Investee. Involvement in a controversy with limited corporate responsibility would lead to expressing a concern and more scrutiny on the topic, while involvement in a severe controversy highlighting clear Investee shortcomings would lead to a major concern and divestment.