Triodos Pioneer Impact Fund

Quarterly Report Q2 2020

FOR PROFESSIONAL INVESTORS AND FINANCIAL ADVISORS ONLY

Triodos Pioneer Impact Fund aims to generate positive impact and competitive financial returns from a concentrated portfolio of small and mid-cap companies pioneering the transition to a sustainable society. The fund selects companies for their pioneering contribution to one or more of our seven sustainable transition themes, which are sustainable food & agriculture, sustainable mobility & infrastructure, renewable resources, circular economy, prosperous & healthy people, social inclusion & empowerment, and innovation for sustainability.

Key figures as of 30-06-2020

Net assets
EUR 359.7million

Number of shares outstanding
7,417,461

Share class*
I-cap

NAV per share
EUR 47.47

Ongoing charges (31-12-2019)
1.22% (incl. 0.75% management fee)

Morningstar rating™ ★★★

Fund facts

Fund inception date March 2007

I-cap launch date July 2013

Asset type Long-only global equities

Benchmark
MSCI World Small Mid Cap Net Total Return

ISIN code LU0309382678

Bloomberg code TRSPFIC:LX

Investment manager
Triodos Investment Management

Fund manager Dirk Hoozemans

Currency EUR

Valuation Daily

Domicile Luxembourg

Legal status
Open-ended sub fund of SICAV I

Supervisor CSSF in Luxembourg

Risk level based on European guideline
6 (1= low 7= high risk)

Investment horizon Long term

Custodian, paying agent, registrar, transfer agent
RBC Investor Services Bank SA

Auditor PwC Luxembourg

* This report is based on the I-cap share class. See www.triodos-im.com for a full overview of EUR, GBP, institutional and retail share classes.

Fund performance in brief

- Triodos Pioneer Impact Fund outperformed its benchmark this quarter, generating a return of 21.1% (after costs), while the benchmark yielded 20.5%.
- Net assets slightly increased to EUR 359.7, up from EUR 355.6 million at the end of previous quarter.
- Declining numbers of newly reported coronavirus cases and gradual reopening of economies supported investor sentiment over the quarter; however, as of June, markets showed signs of doubt, as new cases again surged globally.
- The portfolio remains defensively positioned – in our view, last quarter's price move in equities seems too-much, too-soon as we don't see current valuations properly reflecting underlying fundamentals.

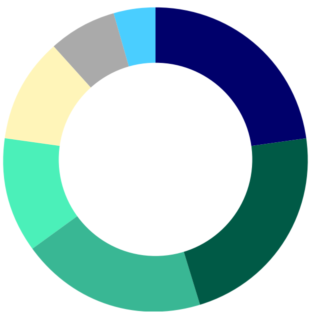
Return in % as of 30-06-2020

	3 months	YTD	1 year	3 year avg	5 year avg	3 year volatility	5 year volatility
Fund	21.1	-4.2	5.4	5.5	3.5	17.5	16.0
Benchmark	20.5	-11.2	-2.7	3.3	4.4	19.1	16.9

All returns stated were calculated based on net asset value I-cap share. Past performance is not a reliable indicator for future performance. Source: Triodos Investment Management

Impact

Our investment selection centres around positive impact. We select companies that contribute to the progress of our seven sustainable transition themes and that meet our strict minimum standards. The breakdown of fund holdings across themes are as follows:



Renewable Resources	22.8%
Innovation for Sustainability	22.5%
Prosperous and Healthy People	19.8%
Sustainable Food and Agriculture	12.2%
Sustainable Mobility and Infrastructure	11.2%
Social Inclusion and Empowerment	7.1%
Circular Economy	4.4%

Dirk Hoozemans
Fund Manager

"Triodos Pioneer Impact Fund drives positive impact and competitive financial return by investing in companies that are at the forefront of innovative sustainable solutions."

Triodos Investment Management

Financial review Q2 2020

Market developments

After the worldwide spread of COVID-19 had initially sent global equity markets into freefall towards the end of February, the subsequent strong rebound that started at the end of March was followed by a further upward move that continued into June. Investor sentiment was lifted by declining numbers of newly reported coronavirus cases in most of the Western world and the gradual reopening of societies and economies. However, as of June, markets started to show some signs of doubt, as the virus is still spreading globally, and China and the US reported sudden rises in new cases. Worries that these developments could lead to a pause in the easing of lockdown measures somewhat halted the strong upward equity market trend.

Besides sentiment and virus developments, equity and corporate bond market rallies that occurred for most of the second quarter were also largely influenced by the enormous monetary and fiscal stimulus packages presented by governments and central banks across the globe. The Federal Reserve (the Fed) announced to buy riskier corporate debt to support companies that had recently experienced a downgrade. The European Central Bank (ECB) increased its pandemic emergency purchase programme (PEPP) with a larger than expected €600 billion. Government bond yields were essentially flat for the quarter, while corporate yields declined on the back of to a combined increase in risk appetite and central bank stimulus.

Investments

After one of the sharpest market corrections on record in the first quarter, global equity markets displayed an equally sharp and unprecedented rebound in the second quarter. Despite the global economy only slowly coming out of the coronavirus-induced lockdown, corporate profit growth still under pressure and macroeconomic indicators still in the doldrums, equity prices swiftly started discounting a quick economic recovery. With stock market valuations increasingly driven by sentiment, stock market leadership just in the hands of a few stocks and the wider investment public increasingly adopting a "Central Banks will come to the rescue"-mentality, the fund trimmed positions with lofty valuations in e.g. the technology sector while selectively adding to cyclical and value names and names that lagged in the broader market run-up

Companies added to the portfolio during the quarter:
No new companies were added to the portfolio in the second quarter. However, we increased the portfolio weightings for a number of companies such as:
- Edwards Lifesciences, a US medical technology company in our Prosperous and Healthy People theme that lagged as surgical procedures are postponed due to COVID-19.
- Persol, a Japanese recruitment and talent agency in our Social Inclusion and Empowerment theme that is currently seeing lower need for recruitment and temporary workers.
- Straumann, a Swiss dental implant manufacturer in our Prosperous and Healthy People theme that lagged on the back of postponed dentist visits during lockdown.

Companies sold during the quarter:
- Kadant, a US supplier of papermaking, paper recycling and wood processing equipment was sold from portfolio during the quarter due to deteriorating company fundamentals.

Also during the quarter, we reduced portfolio exposure to some of the more expensive high-flying names such as:
- SolarEdge, a US solar power inverter company in our Renewable Resources theme.
- Cree, a US semiconductor manufacturer in our Innovation for Sustainability theme.
- BE Semiconductor, a Dutch semiconductor equipment manufacturer in our Innovation for Sustainability theme.

Performance Analysis

Triodos Pioneer Impact Fund outperformed its benchmark this quarter. The fund yielded 21.1% (I-cap) after costs, while the MSCI World Small Mid Cap Net Total Return yielded 20.5%. Defensive sectors such as Consumer Staples, Real Estate and Utilities performed poorly in a stock market that saw one of the sharpest snap-backs on record. Best performing sectors were cyclicals Energy and Materials, as commodity prices bottomed out. Growth sectors Consumer Discretionary and Information Technology also performed well, both benefiting from the work-from-home environment.

Performance attribution in % (gross returns vs. benchmark)*

	Average weight		Total return		Total attribution	Allocation	Selection	Currency
Q2 2020	Portfolio	Benchmark	Portfolio	Benchmark				
Total	**100.00**	**100.00**	**21.42**	**20.65**	**0.77**	**0.09**	**1.88**	**0.15**
Communication Services	1.84	4.39	-9.41	19.37	-0.50	0.05	-1.49	0.13
Consumer Discretionary	9.43	11.13	24.62	32.92	-0.89	-0.20	-0.55	-0.04
Consumer Staples	8.08	4.73	17.13	9.70	0.24	-0.37	0.29	0.15
Energy	0.00	2.25		36.88	-0.24	-0.25	0.00	0.01
Financials	1.68	12.13	38.04	14.49	1.15	0.62	3.30	0.16
Health Care	16.05	11.78	19.90	23.09	-0.33	0.25	-0.51	0.06
Industrials	24.27	17.07	24.38	19.37	1.00	-0.05	0.90	-0.20
Information Technology	21.35	15.49	32.60	29.98	0.95	0.58	0.46	-0.17
Materials	7.08	7.66	22.47	23.42	-0.06	0.00	0.05	-0.10
Real Estate	0.00	9.05		8.77	1.26	1.14	0.00	0.13
Utilities	0.99	4.33	-8.23	5.07	0.44	0.59	-0.57	0.01
Not Classified	9.23	0.00	0.00	-0.21	-2.25	-2.26	0.00	0.00

* Returns stated are quarterly gross returns, thus before any charges are deducted. Returns stated elsewhere are net returns.
Source:Bloomberg/Triodos Investment Management

As equity markets rebounded, the fund's allocation to cash contributed negatively to quarterly performance. The fund's underweight positions in Financials, Real Estate and Utilities contributed positively, as did the overweight position in Information Technology. These positive effects were offset by an underweight in Energy and Consumer Discretionary plus an overweight in Consumer Staples. Stock selection was positive during the quarter, with most positive effects in Financials, Industrials, and Information Technology, and most negative selection in the Communication Services, Utilities, Consumer Discretionary and Health Care sectors. Currency allocation was neutral.

Investment outlook

This year we will see a global recession of a magnitude that has not occurred since WWII. Most countries have experienced peak COVID-19 infections during the second quarter, with a corresponding bottoming in economic activity. However, recent surges in coronavirus cases have shown that second waves of infections are a realistic scenario. A swift reduction of lockdown measures therefore seems unlikely. Nevertheless, the gradual reopening of economies means activity can pick up in the next couple of months, thereby generating positive quarterly global economic growth.

Global GDP will likely not return to its pre-virus path for a long time. Therefore, we expect that monetary and fiscal support will remain extremely accommodative. Earnings estimates have declined, but we think that current expectations are still relatively high. Negative earnings surprises are lurking, in which case lower equity prices and valuations would be entirely warranted. In our view, last quarter's price move in equities seems too-much, too-soon. We don't think current valuations are properly reflecting underlying fundamentals and assume central banks cannot keep financial assets inflated forever.

Environmental impact

The data below are the carbon, water and waste footprints of the fund's portfolio, showing the lower environmental impact of portfolio company activities compared to the MSCI World Small Mid Cap Net Total Return. These figures are intended to provide an indication of the fund's sustainability performance. The fund's positive impact, i.e. the contribution to a sustainable future, derives from our seven transition themes and is not in scope here.

↓72%
GHG Emissions
Equal to emissions of driving 17,132 times around the globe

↓42%
Water used
Equal to the water use of 40.8 million daily showers

↓39%
Landfill waste
Equal to 88,101 household garbage bags of waste

Triodos Pioneer Impact Fund footprints are calculated using carbon emissions data from ISS ESG, and water and waste data from S&P Trucost Ltd. For the MSCI World Small & Mid Cap Index, 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.

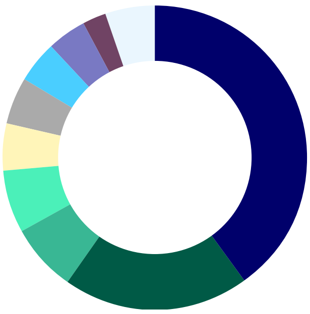
Portfolio as per end of June 2020

Top 10 holdings*

	Company name	Country	Sector	% of NAV
1.	Danone	France	Consumer Staples	3.9%
2.	Vestas Wind Systems	Denmark	Industrials	3.2%
3.	Cree	United States	Information Technology	3.1%
4.	BE Semiconductor Industries	Netherlands	Information Technology	3.0%
5.	Solaredge Technologies	United States	Information Technology	2.9%
6.	TPI Composites	United States	Industrials	2.8%
7.	Signify	Netherlands	Industrials	2.7%
8.	Straumann Holding	Switzerland	Health Care	2.7%
9.	Fresenius Medical Care	Germany	Health Care	2.7%
10.	Power Integrations	United States	Information Technology	2.6%
	Top 10 holdings out of 47 holdings in the portfolio:			**29.4%**

Breakdown by country*

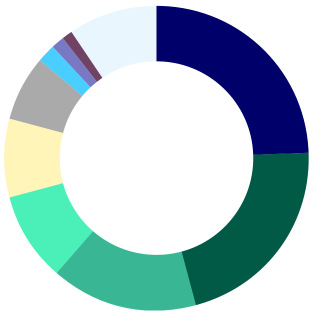
As per end of June 2020



	% of portfolio
United States	40.0%
Japan	19.7%
Denmark	7.2%
Netherlands	6.6%
Switzerland	5.2%
Germany	4.8%
Great Britain	4.4%
France	4.2%
Ireland	2.7%
Others	5.0%

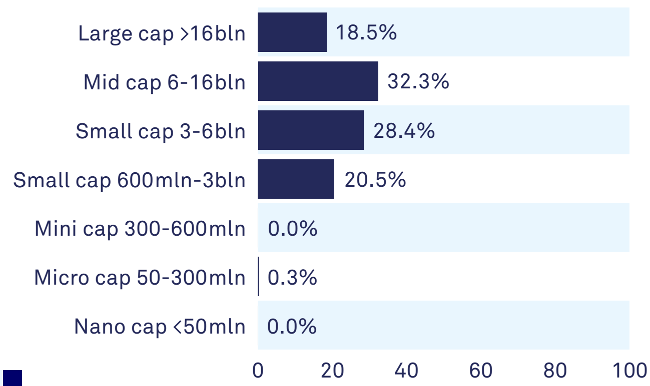
Breakdown by sector*

As per end of June 2020



	% of NAV
Industrials	24.5%
Information Technology	21.4%
Health Care	15.6%
Consumer Discretionary	9.4%
Consumer Staples	8.3%
Materials	6.9%
Communication Services	1.9%
Real Estate	1.6%
Utilities	1.0%
Energy	0.0%
Financials	0.0%
Liquidities	9.3%

Market caps (USD)*

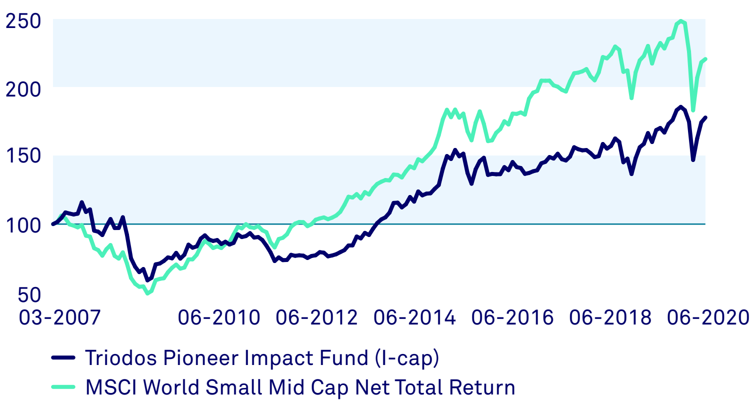


Liquidity profile

Term required for liquidation	% of portfolio liquid within term
Less than 1 day	58.3%
2 - 5 days	93.2%
6 - 30 days	99.9%

Source: Triodos Investment Management, Bloomberg, based on average traded volume of last 20 days of June 2020.

Return chart since inception**



Return last calendar years in %

	2019	2018	2017	2016	2015
Fund	36.0	-11.3	11.1	-6.7	18.1
Benchmark**	29.3	-9.2	7.9	13.2	10.9

All returns stated were calculated based on net asset value I-cap share. Past performance is not a reliable indicator for future performance. Source: Triodos Investment Management

* Source: Triodos Investment Management, RBC Investor Services
** Before Q2 2018 another benchmark was applicable.

Sustainability in the spotlight
The Triodos transition themes: Sustainable Mobility and Infrastructure

Seven sustainable transition themes drive the fund's impact investment strategy. In this section, we zoom into 'Sustainable Mobility & Infrastructure' including how the fund orients its position around this theme and how it is investable.

What is Sustainable Mobility and Infrastructure?

Mobility and infrastructure cover a broad range of facilities, structures, systems and services that support the day-to-day operations of human society. Energy supply, transportation, waste management, water and sewage supply, real estate and communication systems are among the most important elements of infrastructure. Sustainable mobility and infrastructure are designed, constructed and operated to optimise the environmental, social and economic impact.

The Triodos perspective

Transportation systems are the backbone of our cities and rural communities. To keep societies and economies running smoothly an extensive network with different modes of transportation is needed. CO_2 emissions from transport account for 20% of total fuel combustion worldwide. Sustainable mobility is therefore paramount if we want to achieve climate stability. We need to shift from traditional models of mobility (transport in private petrol cars and trucking) to sustainable alternatives (e.g. modes of transport with a lower or no CO_2 footprint, such as public transport solutions and electric vehicles). As the built environment accounts for 8% of total fuel combustion worldwide, a change in the way we build our houses and offices is also essential. We should work towards energy neutral buildings and the use of circular materials. Real estate should be designed, built, operated, and maintained using environmentally responsible and resource-efficient processes.

In a planet stressed by climate change and diminishing natural resources, infrastructure needs to be sustainable. That is, it should be climate resilient, socially inclusive, and should contribute to a reduction of absolute carbon emissions.

Investing in Sustainable Mobility and Infrastructure

- Sustainable transportation modes
  We invest in companies that provide green mobility solutions and services, such as electric vehicles, ride-sharing initiatives or mobility services that integrate several modes of transportation into one multimodal offering that could replace private petrol car ownership. Public transportation modes also make an interesting investment proposition as they are key in reducing CO_2 emissions, noise pollution and traffic congestion. Cycling related goods and services also qualify, as more and more governments promote cycling for health and environmental reasons.
- Sustainable buildings
  We invest in companies supplying products and services that facilitate the decarbonisation of the existing building stock. We are also interested in products and services that facilitate the move towards the construction of energy- and material efficient new buildings.
- Sustainable infrastructure
  We seek companies that offer sustainable infrastructure solutions. Especially in the field of transport, sanitation and waste. Companies active in the field of clean energy and water infrastructure are investable solutions in our renewable resource theme.

Case study: Shimano

An increasing number of countries in Europe and Asia eased COVID-19 lockdown restrictions over the course of May and June, which gave people the opportunity to spend more time outside of their homes. With social distancing still in place, cycling is the most suitable, safe and sustainable way of transport. The combination of sunny weather and easing of lockdown restrictions led to a sharp increase in cycling for travel, exercise, and leisure purposes. Governments across Europe have started promoting cycling as a mode of transport for commuting to work and school as a substitute for public transport where it is difficult to keep distance from others. Additional measures to promote cycling, such as new dedicated cycling lanes and parking spaces, are now high on the agenda of many city councils across Europe and around the globe and will hopefully be implemented soon.

After an initial decline in bicycle sales when COVID-19 broke out, bicycle shops have now reported strong sales of +20% to +50% year-over-year in May and June. Initial demand was mostly for entry level models, as many people started sport cycling for the first time. Sales of electric bicycles (e-bikes) are also increasing sharply. And it is expected that demand for e-bikes will increase further if-and-when commuting to work and school will re-start after the summer holidays. If commuting to work and school becomes more popular in the longer-term, then we expect demand for bicycles to structurally increase.

Shimano is the largest worldwide supplier of bicycle components. The company also has a very strong after-sales network to support cyclists on an ongoing basis. Shimano has increased R&D spending to fulfill the expected demand for high quality bicycles, including STEPS e-bike components. The stock price of Shimano has increased sharply in Q2 reflecting the increase in short-term and long-term demand for bicycles and e-bikes.

Active engagement with companies in portfolio

- Signify
  We have been in regular contact with Signify, ever since investing in the company in 2018. Part of our discussions with management and the supervisory board of the company have centered around remuneration policy and the targets for the board of management. We believe executives should focus on creating value for all stakeholders and as such, targets should be aligned with this focus. We have also shared this view with Signify in our discussions with the company. It was therefore good to see that Signify proposed changes to its remuneration policy that put more emphasis on value creation for all stakeholders. Specifically, Signify increased the weight of sustainability targets in its mix of targets and included a value creation metric. These changes were approved at the (virtual) AGM, which was held in May of 2020.

Highlights from the 2020 proxy voting season

In line with our stewardship policy, and even amid the COVID-19 extraordinary circumstances and related measures, we have been able to carry our shareholders' duties smoothly.

During the second quarter, when most AGMs are typically held, we were able to exercise our voting rights. AGMs (and/or EGMs) this season were predominantly held virtually, which allowed us to attend when warranted and/or to otherwise vote by proxy. While some of the companies had to delay their meetings to be able to properly structure them for virtual attendance or to reassess meeting agendas, almost all companies in the portfolio were able to provide meeting agendas with sufficient time for us to analyse and vote in line with our vision and guidelines. This voting season, executive remuneration and dividends were two items we paid close attention to given the current circumstances, to ensure fair and non-excessive compensation and adequate use of funds.

Board of directors and independent audit

When we feel that members of the board of directors are insufficiently independent, we vote against their (re)appointment. This was the case this proxy season for Align Technology. We also voted against the re-appointment of auditors for some companies. This was again the case for Align Technology, where the proposed auditor had been in place for more than ten years, while we believe that failure to regularly rotate auditing firms can compromise the independence of the auditor. We voted against the auditors due to long tenure/lack of rotation and due to excessive non-audit fees, which may raise some concerns about the independence of the statutory auditor.

Excessive remuneration

In line with our standards, we voted against what we considered to be excessive executive remuneration packages. For example, when the maximum long-term award opportunities are not limited to 200% of base salary. As such, we voted against the executive compensation for Align Technology and Edwards Lifesciences.

See how Triodos Investment Management maximises its influence on the companies we invest in through deliberate shareholder action: www.triodos-im.com

Triodos Investment Management

Triodos Investment Management is a dedicated impact investment manager, making money work for positive change across sectors that are key in the transition to a world that is fairer, more sustainable, and humane, including Energy & Climate, Inclusive Finance, and Sustainable Food & Agriculture. We also invest in listed companies that offer products and services, which facilitate the transition to a sustainable society. Assets under management as per end of December 2019: EUR 4.9 billion.

Triodos Investment Management is a globally active impact investor and consists of Triodos Investment Management BV and Triodos Investment & Advisory Services BV, both wholly-owned subsidiaries of Triodos Bank NV.

Contact

We welcome you to contact our Investor Relations team to learn more about our impact investment opportunities.
E: triodosIM@triodos.com
T: +31 (0)30 693 6500