Triodos Euro Bond Impact Fund

Quarterly Report Q2 2020

FOR PROFESSIONAL INVESTORS AND FINANCIAL ADVISORS ONLY

Triodos Euro Bond Impact Fund aims to generate positive impact and competitive returns from a concentrated portfolio of investment-grade corporate, sovereign and sub-sovereign Euro denominated bonds. The fund selects investments for their contribution to our seven sustainable transition themes.

Key figures as of 30-06-2020

Net assets
EUR 333.9 million

Number of shares outstanding
11,859,835

Share class*
I-cap

NAV per share
EUR 38.26

Ongoing charges (as per 31-12-2019)
0.62% (incl. 0.40% management fee)

Morningstar rating™ ★★★

Fund facts

Fund inception date July 2007

I-cap launch date July 2007

Asset type
Long-only euro denominated fixed income

Benchmark
60% iBoxx Euro Non-Sovereigns Eurozone Net Total Return
40% iBoxx Euro Sovereigns Eurozone Net Total Return

ISIN code LU0309381605

Bloomberg code TRVBFIC:LX

Investment manager
Triodos Investment Management

Fund manager Jeroen van Herwaarden

Currency EUR

Valuation Daily

Domicile Luxembourg

Legal status
Open-ended sub fund of SICAV I

Regulator CSSF in Luxembourg

Risk level based on European guideline
3 (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, institutional and retail share classes.

Fund Performance in brief

- Triodos Euro Bond Impact Fund generated a return (after costs) of 1.7%, while the benchmark yielded 2.7%.
- Net assets increased from EUR 309.0 million to EUR 333.9.
- 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.
- Corporate bond markets rallied for most of the second quarter, largely influenced by enormous monetary and fiscal stimulus packages presented by governments and central banks across the globe.
- The fund remains defensively positioned, with a focus on holdings in high quality (semi-) sovereigns and corporates.

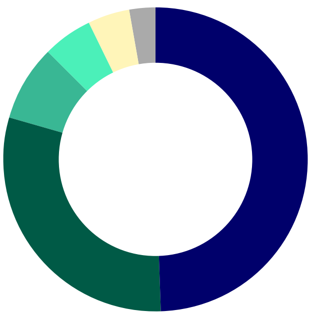
Return in % as of 30-06-2020

	3 months	YTD	1 year	3 year avg	5 year avg	3 year volatility	5 year volatility
Fund	1.7	1.1	0.4	2.0	1.8	3.1	3.0
Benchmark	2.7	0.9	1.4	2.6	2.5	3.5	3.3

All returns stated were calculated based on net asset value I-cap share. Past performance is not a reliable indicator for future performance. The stated volatility is measured as annualised standard deviation, based on monthly returns. 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:



Sustainable Mobility and Infrastructure	49.5%
Social Inclusion and Empowerment	30.1%
Renewable Resources	7.9%
Prosperous and Healthy People	5.4%
Sustainable Food and Agriculture	4.5%
Innovation for Sustainability	2.6%
Circular Economy	0.0%

The pie chart only represents the holdings in corporate bonds. Sovereign bonds are used for liquidity management of the portfolio.

Jeroen van Herwaarden

Fund Manager

"Impact investments should be a core part of any listed fixed income portfolio. Triodos Euro Bond Impact Fund generates positive impact and stable income through a risk-averse portfolio of securities that contribute to at least one of our seven sustainable transition themes."

Triodos Investment Management

Financial review Q2 2020

Market developments

The equity and corporate bond market rallies that occurred for most of the second quarter were 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 decreased due to the combined increase in risk appetite and central bank stimulus.

Investments

The large fiscal and monetary stimulus packages that emerged in the second quarter of 2020 kept interest rates low. Contrary to the first quarter, all markets performed positively in the second quarter. German bund yields marginally increased and spreads on sovereign bonds of Southern European countries like Italy and Spain declined. Although the duration of the portfolio is slightly longer than the benchmark, the fund will remain defensively positioned, with a focus on holdings in high quality (semi-) sovereigns and corporates. Triodos Euro Bond Impact Fund is underweight lower rated corporates and the fund's cash position has declined as liquidity in the market has improved.

Investments added to the portfolio

In the second quarter, Triodos Euro Bond Impact Fund added the following bonds to the portfolio:

- Enexis, a regional grid operator in the Netherlands that provides gas and electricity to clients, but increasingly also feeds renewable energy produced by the same clients back to the energy grid. The bond was issued as a "green bond" to finance projects that increase the share of renewable energy, investments in energy efficiency, clean transportation projects and green buildings. However, due to the long lookback period applied to the proceeds selected for investment (refinancing allowance in the green bond framework), the fund does not acknowledge the issuance as part of its "green bond" allocation. Instead, the bond is classified as a standard corporate bond in our Sustainable Mobility and Infrastructure theme.
- Region Ile de France, the regional government of north-central France, which surrounds the nation's capital, Paris. The bond is part of our Sustainable Mobility and Infrastructure theme. Proceeds will be used to finance seven sustainability projects categories:
  1. Buildings and equipment for education and leisure
  2. Public transportation and sustainable mobility
  3. Renewable energy and energy efficiency
  4. Biodiversity
  5. Social initiatives aimed at helping vulnerable population groups
  6. Social housing,
  7. Economic and socially inclusive development.
- Eurofima, the Swiss-based supranational organisation that has the non-profit mission to support the development of public passenger rail transportation in Europe. The company finances rolling stock equipment used for electrical passenger transport exclusively electric locomotives, electric multiple units and coaches. For bond proceeds, Eurofima will assess both the railway(s) and the rolling stock to evaluate the use of the rolling stock (i.e. passenger transport only and the source of power (i.e. electric only). The bond is part of our Sustainable Mobility and Infrastructure theme.
- Instituto de Credito Oficial (ICO), the Spanish state-owned bank that promotes economic activities contributing to growth, development of the country, and improved distribution of wealth. Proceeds will be allocated to projects mitigating the social and economic impact of the pandemic in Spain, especially in those regions that have been facing declining population over the last decade. Bond proceeds are allocated to SMEs facing difficulties from the pandemic, to healthcare facilities and to basic services. The bond is part of our Social Inclusion and Empowerment theme.
- Comunidad Autónoma de Madrid, or the government of Madrid. The bond proceeds are allocated to the following project categories: Waste Management, Clean Transportation (promoting electric vehicles, charging stations, public transport services, and modal shift towards public transport) and Environmental Conservation. The bond is part of our Sustainable Mobility and Infrastructure theme.

Investments sold

- Valeo. The company was removed from the portfolio due to the risk of a downgrade to below investment grade.
- Exposure in Renault was decreased for the same reason; the sold position was later downgraded to below investment grade.

Performance analysis

The fund generated a return of 1.7% after costs, while the benchmark yielded 2.7%. The underperformance of 99 basis points is mainly explained by a negative allocation and selection effect. Our overweight position in high quality corporates and semi-sovereigns contributed to both effects. Our underweight position in corporates had a negative allocation effect.

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

	Average weight		Total return	Curve Change	Allocation	Selection
Q2 2020	Portfolio	Benchmark	Portfolio	**Contribution**	**effect**	**effect**
Total	**100.00**	**100.00**	**1.96**	**0.05**	**-0.40**	**-0.54**
Treasury	33.68	39.80	1.63	-0.05	-0.05	-0.08
Corporates	20.47	27.66	3.52	-0.07	-0.49	-0.23
Government-related	38.51	21.61	1.68	0.22	0.22	-0.23
Securitized	3.20	10.92	1.34	-0.05	-0.07	0.00
Cash	4.13	0.00	0.00	0.00	0.00	0.00

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

Investment outlook

This year we will see a global recession of magnitude that hasn't occurred since WWII. Most countries have likely 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.

Uncertainty and ongoing monetary stimulus will likely keep government bond yields near historical lows. Yields of both investment grade and high yield credits are still above their pre-corona levels, making the valuation of corporate credit relatively attractive compared to government bonds. Further, credits are likely to benefit from policy measures aimed at improving liquidity and solvency. For this reason, we slightly increase our exposure to investment grade credits. We prefer high quality names, as the collapse in economic activity is likely to trigger an increase in corporate credit downgrades. Overall, we remain broadly neutral for our fixed income allocation.

Environmental impact

The carbon, water and waste footprints of the fund's portfolio, below, demonstrate the lower environmental impacts of the portfolio companies' activities compared to the iBoxx Europe ex Sovereign benchmark. 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.

CO_2

↓62%

GHG Emissions

Equal to emissions of driving 1,866 times around the globe

↓44%

Water used

Equal to the water use of 18.6 million daily showers

↓27%

Landfill waste

Equal to 18,118 household garbage bags of waste

The footprints are calculated using carbon emissions data from ISS ESG, and water and waste data from S&P Trucost (copyright c 2019 S&P Trucost Limited). Triodos Euro Bond Impact Fund footprints are calculated using carbon emissions data from ISS ESG, and water and waste data from S&P Trucost Ltd. 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.

Portfolio as per end of June 2020

Top 5 Non-sovereign holdings

0.150% Eurofima 2019 - 2034	1.8%
0.000% NRW Bank 2019 - 2029	1.5%
1.875% North Rhine-Westphalia 2014 - 2024	1.5%
1.250% European Union 2018 - 2033	1.4%
1.750% Council of Europe Development Bank 2014 - 2024	1.4%

Top 5 Sovereign holdings

1.750% French Government bond 2016 - 2039	2.7%
1.350% Irish Government bond 2018 - 2031	2.4%
0.500% Dutch Government bond 2019 - 2040	2.3%
1.250% Belgium Government bond 2018 - 2033	1.8%
4.750% German Government bond 1998 - 2028	1.7%

Source: RBC Investor services

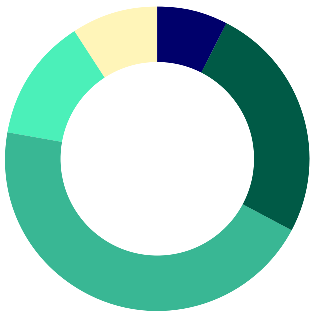
Breakdown by risk category

As per end of June 2020

	% of portfolio
AAA	24.3%
AA	30.8%
A	23.4%
BBB	21.6%

Breakdown by duration

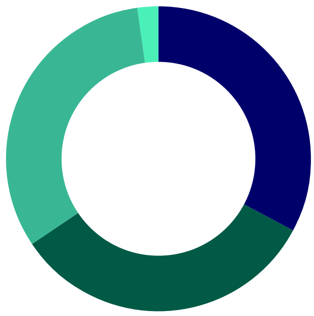
As per end of June 2020



	% of NAV
0-2 year	7.7%
2-5 year	25.2%
5-10 year	44.9%
10-15 year	13.0%
> 15 year	9.1%

Breakdown by investments

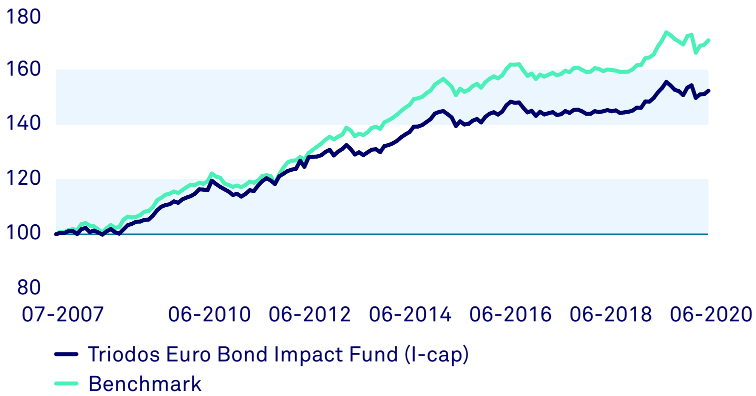
As per end of June 2020



	% of portfolio
Corporate bonds	32.9%
Green	4.7%
Regular	26.6%
Social	1.6%
Sovereign bonds	32.8%
Green	9.2%
Regular	23.6%
Sub-sovereign bonds	32.2%
Green	14.2%
Regular	15.9%
Social	2.1%
Liquidity	2.1%

Source: RBC Investor services

Return chart since inception



Triodos Euro Bond Impact Fund	Portfolio	Benchmark
Modified Duration	7.2	6.9
Yield	0.06	0.24
Convexity	0.83	0.98
Average Rating	AA-/A+	AA-/A+
SII Capital Charge	3.8	3.3
SWAP Spread	33.00	53.24
Spread Duration	7.2	6.89
Duration Times Spread	2.6	4.36

Source: Triodos Investment Management

Return last calendar years in %

	2019	2018	2017	2016	2015
Fund	3.9	0.2	-0.1	3.0	-0.9
Benchmark	5.7	0.1	0.8	3.3	0.7

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

Liquidity profile

Sovereigns (strategic weight 40%): Time to liquidate portfolio at fair price: 1 hour
Credits (strategic weight 60%): Est.time to liquidate portfolio at fair price: max. 1 week

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

Seven sustainable transition themes drive the fund's impact investment rationale. 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 infrastructural 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: Ile de France

With more than 12 million inhabitants, Ile de France is the most populated region in France. The French capital, Paris is central to the region. Ile de France is home to approximately 23% of the French workforce and consists of a relatively young population. Ile de France has a high-quality workforce, one of Europe's most developed transportation networks (200 km of subway lines, 1,820 km of railways, 100 km of tramway tracks), the largest airport in Continental Europe and is a world-renowned cultural and tourist destination. Region Ile de France has been issuing sustainability bonds regularly since 2012. The proceeds are used in seven key areas:

- Buildings and equipment for education and leisure;
- Public transportation and sustainable mobility;
- Renewable energy and energy efficiency;
- Biodiversity;
- Social initiatives aimed at helping vulnerable population groups;
- Social housing; and
- Economic and socially inclusive development.

In addition, Ile de France has emphasised its ambition to allocate more proceeds of the latest bonds for projects to support recovery from the COVID-19 crisis, such as healthcare improvements.

Each project financed by the bonds has been analysed for its contribution to the UN Sustainable Development Goals (SDG). Thanks to its diverse use of the proceeds, Region Ile de France fits well with three transition themes: Social Inclusion and Empowerment, Sustainable Mobility and Infrastructure and Renewable Resources. Many projects benefit from the sustainability bonds, for example:

- Construction of a new high school. Emily Brontë high school can host 1,015 students in Lognes. The project also promotes use of renewable energy and minimal environmental disturbance.
- Extension of subway Line 11 in Paris to Rosny-Bois-Perrier. The number of users switching from private cars is estimated at around 7%, or 1.33 million fewer private car journeys per year. This will save 3,255 CO_2 teq/year.
- Construction of 117 new housing units in Neuilly-sur-Marne with the implementation of an environmental certification process. The project supported 153 FTEs and 311 beneficiaries. Such social inclusive development can help combat inequality and promote safety of individuals.

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

Active engagement

- **BMW** were among 83 global brands mentioned in a report published by the Australian Strategic Policy Institute (ASPI) "Uyghurs for sale" (March 2020). This report shares that global brands may be linked to cases of forced labour in their supply chains. ASPI estimates that more than 80,000 Uyghurs were transferred out of the Xinjiang province to work in factories across China between 2017 and 2019, and some of them were sent directly from detention camps.

  Action:
  We engaged with our portfolio companies that were mentioned in the report, asking for investigations into these claims, disclosure of the results, as well as detailed information on the companies' supply chain monitoring programmes, and whether they extend to sub-suppliers. BMW confirmed that the factories, which the allegations were based on, are not among the companies' direct and indirect suppliers - contrary to those factories' own advertising.

- **The European Union's** sustainable finance dossier content was discussed with legislatures. The European Commission adopted an action plan on sustainable finance, which sets out a comprehensive strategy with ten key actions to more closely govern the sector. Triodos IM is very positive about this comprehensive ambition of the European Commission and actively contributes to the plan by acting as an expert and participating in one-on-one consultations with policy makers.

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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.nl
T: +31 (0)30 693 6500