Triodos Sustainable Bond Fund

FOR PROFESSIONAL INVESTORS AND FINANCIAL ADVISORS ONLY

Quarterly Report Q3 2018

Triodos Sustainable Bond 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 including sustainable food and agriculture, sustainable mobility and infrastructure, renewable resources, circular economy, social inclusion and empowerment, innovation for sustainability, and prosperous and healthy people.

Key figures as of 30-09-2018

Net assets
EUR 269.1 million

Number of shares outstanding
9,345,388

Share class* I-cap

NAV per share EUR 36.22

Ongoing charges (as per 30-06-2018)
0.61% (incl. 0.60% 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 William de Vries

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.com for a full overview of EUR, GBP, institutional and retail share classes.

Fund performance in brief

- In the third quarter, the fund returned -0.7% after costs against -0.5% for the benchmark. Year to date, the net return is -0.4%, outperforming the benchmark return, which is -0.5%.
- The overall result of Eurozone investment-grade fixed income markets was negative in the third quarter, driven by the negative sentiment on the sovereign markets.
- Financials did better than non-financials, partly recovering from the underperformance of the first half of the year.
- Year to date, fixed income returns are negative as yields gradually rise towards higher levels. Higher quality bonds perform slightly better, as they are not hit by the negative sentiment around Italian sovereigns.

Return in % as of 30-09-2018

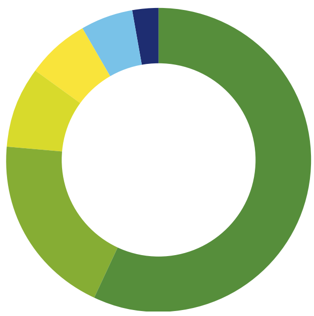
	3 months	YTD	1 year	3 year avg	5 year avg	3 year volatility	5 year volatility
Fund	-0.7	-0.4	0.0	0.9	2.1	2.5	2.8
Benchmark	-0.5	-0.5	0.1	1.4	3.0	2.5	2.8

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

In our investment process, we focus on companies that fit at least one of our seven transition themes. We select companies that contribute positively to the transition towards a more sustainable economy, whereby we integrate sustainability and financial analysis. The current spread of fund assets over the themes is presented in the figure below. In addition to the impact through investment per theme, we also aim to report on the portfolio's environmental footprint. However, for a lack of quality data this proved more difficult for Triodos Sustainable Bond Fund than expected and has therefore not been implemented yet.

Social Inclusion and Empowerment	57.0%
Sustainable Mobility and Infrastructure	19.4%
Sustainable Food and Agriculture	8.8%
Prosperous and Healthy People	6.7%
Innovation for Sustainability	5.5%
Renewable Resources	2.6%
Circular Economy	0.0%



William de Vries
Fund Manager

"Triodos Sustainable Bond 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."

Financial review Q3 2018

Market developments

Despite some softening, global economic growth remained robust in the third quarter. Global inflation rose (partly due to temporary oil-price effects) but remained muted. The major central banks continued to normalise their monetary policy. Both the US Federal Reserve and the Bank of England raised their interest rates. The European Central Bank announced plans to end its bond purchases at the end of this year and keep interest rates at record low levels at least through next summer. The Bank of Japan tweaked its monetary policy. In this economic environment, bond yields grinded higher.

However, it was not a quiet summer. The US-China trade dispute intensified. Anticipatory concerns around the impact of a trade war in combination with a deleveraging push by Chinese authorities led to a growth slowdown in China. In addition, the market suddenly realised that a strong dollar and disappearing dollar liquidity might become a problem for several (highly-indebted) emerging economies. Europe has been hit by mounting Italian budget worries, Spanish banks' exposure to Turkey, trade-war fears and increasing uncertainty around Brexit. All these political and economic uncertainties affected market sentiment. Equity markets in the US and Japan continued to move higher. At the end of the day, the European equity market hardly moved. Emerging market stocks moved lower.

Investments

During the quarter, portfolio construction has been aimed at implementing our thematic positive impact approach within the portfolio. We aim to distribute the investments of the fund evenly over the 7 impact themes, with regard to concentration and diversification risk. The positions in corporate bonds of companies with no clear theme fit have been sold, which was particularly the case for many of the of financials. Those sold were ABN Amro, Danske Bank, Credit Foncier, Unibanca, ING Bank and Svenska Handelsbanken. In addition, we also sold WPP, Publicis and Booking. We enlarged or added positions of companies like DSM, ASML, Essity, Vodafone, Deutsche Post, British Telecom, Telenor, Toyota, Terna, SAP, FMO, Evonik, Philips, BMW, AkzoNobel, Carrefour and Deutsche Telekom.

Apart from this restructuring of the portfolio, the fund participated in a few new issues of impact bonds. At the end of September, we lowered our relative short in Italians sovereigns, as the spread, the difference of the 10-year yield between Italy and Germany, hit new highs. History shows that such budget conflicts usually end up in some compromise arrangement between a government and the European Union, which we also expect to happen in this case.

Investment outlook

Although we expect US fundamentals to remain relatively strong in the fourth quarter, we think that profit growth will gradually taper going forward. Increasing inflationary pressures will probably justify another rate increase at the December Fed-meeting. We don't expect the 10-year US treasury yield to move much higher, but the yield curve will probably continue to flatten. An inversion in the US yield curve is possible around the turn of the year. Historically this has been a reliable early warning sign that a recession could occur over the next nine to 18 months, but this time might be different.

Europe will probably continue to grow above-trend, but the downside risks are great. The Italian budget row with Brussels will probably continue, while Brexit-tensions are likely to intensify as the deadline draws closer. Despite low core inflation, the ECB will probably terminate its bond buying program. We expect German bond yields to fluctuate around the levels we have seen at the end of the third quarter. We doubt whether European equities will move substantially higher. The cycle will remain a tailwind for equities, but political risks may limit the upward potential.

Growth in China will probably stabilise, as the Chinese government is implementing stimulus measures. We don't think emerging economies are out of the woods yet. The Fed will continue to tighten, the US dollar will remain expensive and the US-China trade tensions will probably escalate further. Differences in fundamentals are big, however, meaning that some emerging markets will be hurt more than others. We do not foresee a general EM crisis in the fourth quarter.

Our bond market outlook remains unchanged. Low yields promise low returns, and the rise of yields will be gradual and very slow. For now, yields in the eurozone are likely to keep moving in a narrow range, except for the upward-moving yields on Italian sovereigns. The central banks maintain their course of very gradual monetary tightening, or what they call a 'normalisation of monetary policy'. In the US, this policy has led to a gradual rise of interest rates towards more attractive levels, whereas in Europe the first rate hike is not to be expected before the summer of 2019. We maintain our view that long-term interest rates will gradually rise, but on the short term this seems rather unlikely for the core European countries.

Performance analysis

Overall, the third quarter was negative for fixed income investments, and on a relative basis the fund performed in line with the benchmark. The relative interest rate exposure was close to zero, although the fund encountered some curve return: given a small overweight in longer-dated corporates and semi-governments as a result of new issuance, the fund suffered a small relative loss on curve positioning of 14 basis points. This was compensated by a relative outperformance from allocation and selection, the result of our underweight in Italian sovereigns and our overweight in higher quality corporates. As the table shows, not being invested in Italy resulted in a large positive selection effect.

Performance attribution in % (gross returns vs. benchmark)

Q3 2018	Average weight in %	Gross excess return	Allocation effect	Selection effect
Total		0.02%	0.05%	0.08%
Treasury	42.4%	0.05%	0.02%	0.09%
Corporates	26.7%	-0.10%	0.02%	0.01%
Government-related	25.9%	-0.13%	0.01%	-0.02%
Securitized	4.6%	-0.05%	0.00%	-0.01%
Cash	0.4%	0.00%	0.00%	0.00%

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

Portfolio as of 30-09-2018

Top 5 Non-sovereign holdings

1.125% Kreditanstalt fuer Wiederaufbau 2013 - 2018	2.2%
0.125% FMO 2015 - 2020	2.1%
1.750% Council of Europe Development Bank 2014 - 2024	1.7%
2.500% Kreditanstalt fuer Wiederaufbau 2012 - 2022	1.6%
4.625% European Investment Bank 2004 - 2020	1.4%

Top 5 Sovereign holdings

0.500% German Government bond 2015 - 2025	3.4%
1.750% French Government bond 2016 - 2039	3.0%
2.750% French Government bond 2012 - 2027	2.6%
2.250% French Government bond 2013 - 2024	2.5%
3.000% German Government bond 2010 - 2020	2.3%

Source: Triodos Investment Management, RBC Investor Services

Breakdown by risk category

As per end of September 2018

AAA	29.7%
AA	33.0%
A	14.3%
BBB	23.0%

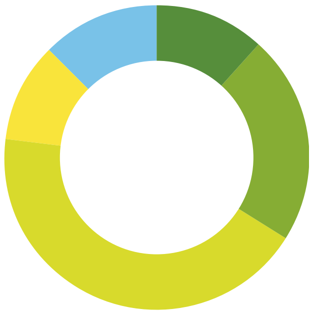
Breakdown by investments

As per end of September 2018

Sovereign bonds	40.2%
Corporate bonds	30.8%
Sub-sovereign bonds	25.4%
Liquidity	3.6%

Breakdown by duration

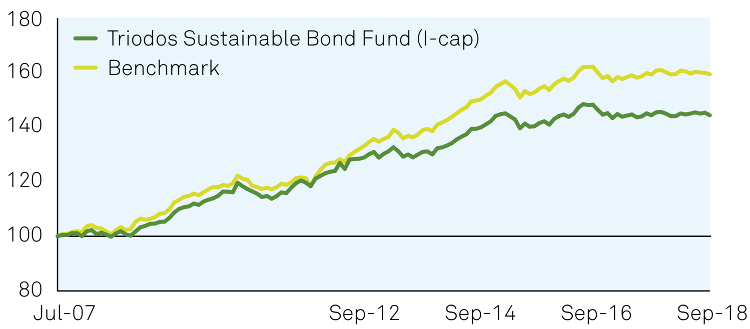
As per end of September 2018



0-2 year	11.8%
2-5 year	22.3%
5-10 year	43.0%
10-15 year	10.6%
> 15 year	12.3%

Source: Triodos Investment Management, RBC Investor Services

Return chart since inception



Triodos Sustainable Bond Fund	Portfolio	Benchmark
Modified duration	6.57	5.88
Yield	0.61	0.73
Convexity	81.0	75.2
Average rating	AA	A
SII capital charge	3.48	2.54
SWAP spread	2.45	26.99
Spread duration	6.57	5.88
Duration Times Spread	1	2.72

Source: Triodos Investment Management

Return last calendar years in %

	2017	2016	2015	2014	2013
Fund	-0.1	3.0	-0.9	9.3	-0.7
Benchmark	0.8	3.3	0.7	10.1	2.1

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: Renewable resources

In every Quarterly Report of Triodos Sustainable Bond Fund, we zoom in on the sustainability developments in a specific sector and/or companies. In this section we introduce the transition themes that form the basis of the fund's investment strategy. This quarter we shine our light on 'renewable resources'.

What are renewable resources?

Renewable resources are natural resources that can be replenished naturally over time. Some renewable resources, such as solar and wind energy, have essentially an endless supply. Other resources, such as water, wood and oxygen, take time and effort to renew.

The Triodos perspective

For a transition from a resource intensive economy to a sustainable economy, it is essential to reduce demand for non-renewable natural resources. They should be used as efficiently as possible and, whenever possible, renewable natural resources should be used.

The energy sector will need to undergo a deep transformation, including full decarbonisation of the power sector. We strive for a 100% renewable energy system that enables sustainable economic development and limits the rise in global temperature to well below 2˚C.

Renewable energy can take different forms: solar, wind, hydro, geothermal. We exclude nuclear energy, because it is inherently unsafe, and the issue of nuclear waste is as yet unresolved.

We also need to find more renewable (bio-based) raw materials as feedstock for industrial processes. Demand for raw materials, such as oil, metals and minerals, will continue to increase. Instead of tackling the projected production shortfall by stepping up the exploration, we should optimise the use and recycling of these raw materials (although low concentrations can make this technologically highly challenging).

We should also develop alternative materials that will provide the functionality needed in the application. This is the only natural way to reduce dependence on raw materials that are in limited supply.

Water needs to be treated with care. In many regions of the world, water becomes scarcer and demand rises. Efficient use, and technology to clean and recycle water will be key to clean and affordable water supply.

When new water facilities are designed, or existing water structures modernised, attention must be paid to sustainability. We also need water systems that use, treat, store and reuse water more efficiently. Furthermore, we must start extracting the significant resources (nutrients and energy) found in wastewater rather than discarding them as waste.

Investing in renewable resources

In our analysis we evaluate to what extent a company offers products and services that stimulate the production and use of renewable energy and bio-based materials or help to reduce the impact on the environment with smarter and more efficient solutions for water treatment and use.

Renewable energy

Our SRI funds invest in companies that offer solutions towards a zero-carbon energy system. Companies that generate green sources of energy would qualify, and manufacturers across the clean energy value chain, such as solar panel producers and windmill producers. Companies providing energy storage solutions, such as battery storage developers, and developers of smart grid technologies, are also investable.

Bio-based materials

We invest in suppliers of bio-based raw materials and in companies that use such materials. Companies active in the field research of new bio-based materials may also be interesting. In our assessment we are always careful, however, that the production of bio-based materials does not compete with agricultural resources to produce food.

Water

When it comes to water, we seek to finance the transition to more integrated water systems. Solutions that improve water and energy efficiency along the water value chain are also interesting.

Case Study: Evonik: the quest for bio-based materials

Evonik AG is a globally operating manufacturer of speciality chemicals, offering a range of products in three business segments: Resource Efficiency, Nutrition & Care and Performance Materials. The Resource Efficiency segment provides environment-friendly and energy-efficient system solutions, mainly for the automotive sector and for the paints, coatings and construction industries.

The Nutrition & Care segment produces specialty chemicals, mainly used in consumer goods for daily needs, and animal nutrition and healthcare products. Performance Materials offers polymer materials and intermediates, mainly for the rubber and plastics industries. The company considers its performance materials for the most part as mature business and considers most of the two other segments as growth business.

Evonik is committed to finding bio-based alternatives for many of its products and can show several successes, for example with bio-based surfactants, coatings and bio-based polyester. In the personal products sphere, the quest for natural materials has resulted in new natural ingredients for skin care products. The company focuses on sustainable materials, but also carries out its operations with responsibility. It has a strong Environmental Management System and ISO 14001 certification for almost all its sites and has water management and greenhouse gas (GHG) reduction programmes. It aims to reduce its water consumption by 10% and GHG emissions by 12% by FY 2020, compared to FY 2012.

The company is involved in animal testing as result of legal requirements but has a strong policy for such testing, that meets Triodos Bank's requirements.

Evonik strategically focuses on products with low cyclicality and low material dependency. With a high degree of customer-specific products and high customer proximity, the company aims for products with value-based pricing, to maintain high margins.

Overall, Evonik fits the renewable resources theme well. With its range of specialised products the company contributes to a sustainable transition by using more renewable resources and use them more efficiently.

Active engagement with companies

- Meeting with ASML, as part of a Principles for Responsible investment (PRI) joint investor engagement project on tax, to discuss the company's tax policy and improvements in its tax reporting.
- Call with Toyota Motor Corporation and two other investors from the investor group on child labour in the cobalt supply chain. Toyota reports to be working together with the Responsible Minerals Initiative and also with a joined initiative of the European automotive industry that aims to work on supply chain risks. A follow-up call with Toyota to hear more details will take place early next year.

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

Investment strategy

In our investment process, which will be gradually implemented going forward, we focus on companies that fit at least one of our seven transition themes, rather than on 'Best-in-Class' candidates. We select companies based on an integrated process of sustainable and financial analysis. The new approach also implies that the focus of analysis will shift more to a forward-looking sustainability approach.

Transition themes

- *Sustainable food and agriculture*
  Focus on preservation of soil, water systems, nature and biodiversity, and promotion of sustainable food products and healthy diets.
- *Sustainable mobility and infrastructure*
  Focus on solutions for sustainable mobility and infrastructure such as urban mobility, sustainable buildings and electric vehicles.
- *Renewable resources*
  Focus on alternatives for fossil fuel-based resources, bio-based materials as alternatives to finite resources, and efficient water infrastructure.
- *Circular economy*
  Focus on the principles of circular economics, including efficient waste management and recycling, product-as-a-service business models and eco-efficiency combined with product-life extensions.
- *Prosperous and healthy people*
  ocus on health solutions such as medical technology, health care, personal hygiene and fitness, as well as maintaining and promoting health by preserving the environment.
- *Innovation for sustainability*
  Focus on front-runners in sustainable innovation and technology, including cybersecurity, telecommunications, robotics and information technology.
- *Social inclusion and empowerment*
  Focus on education, inclusive financial services and access to media and information, as well as on role models in the advancement of social inclusion and equality.

Our investment process is designed to ensure that our SRI portfolios remain anchored in driving solutions to our sustainable transition themes:

1. Idea generation and positive inclusion
From a broad universe we select investment candidates that have products, services or operating models which support the transition to a sustainable society.

2. Minimum standards check
Any company we invest in must meet our process, product and precautionary minimum standards, to safeguard that their business practices do not jeopardise the transition to a sustainable society. Portfolio companies are also regularly evaluated. Companies that do not meet our standards are not or no longer eligible for investment by our funds.

3. Integrated analysis
We conduct a comprehensive, integrated financial and sustainability analysis, focusing on the potential impact of sustainability factors on a company's future financial value, making our approach both solutions-focused and forward-looking.

4. Stewardship
Triodos Sustainable Bond Fund actively engages with companies to drive sustainability at Board level. Through collaborative dialogue, we aim to maximise the positive impact of our investees by strengthening their insight into material sustainability issues, thus adding to their ability to deliver long-term value.

Triodos Investment Management

Triodos Investment Management connects a broad range of investors who want to make their money work for lasting, positive change with innovative entrepreneurs and sustainable businesses doing just that. In doing so, we serve as a catalyst in sectors that are key in the transition to a world that is fairer, more sustainable and humane.

With our highly professional investment teams, we have built up in-depth knowledge throughout our 25 years of impact investing in sectors such as Energy & Climate, Inclusive Finance, Sustainable Food & Agriculture and Sustainable Real Estate. We also invest in listed companies with an above-average environmental, social and governance (ESG) performance. Assets under management as per end of June 2018: EUR 4.2 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

To find out more about our six investment strategies please contact our Investor Relations staff in Europe.
E: institutionalinvestors@triodos.com
T: +31 (0)30 694 2400