# Triodos Euro Bond Impact Fund

## Quarterly Report Q3 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 30-09-2020

**Net assets**
EUR 341.5 million

**Number of shares outstanding**
12,011,089

**Share class***
I-cap

**NAV per share**
EUR 38.67

**Ongoing charges (as per 30-06-2020)**
0.57% (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

- The fund generated a return (after costs) of 1.1%, while the benchmark yielded 1.5%.
- The fund's net assets increased from EUR 333.9 million last quarter, to EUR 341.5 million this quarter.
- Global bond markets performed well during the third quarter, with corporate bonds outperforming the broader market.
- The fund increased exposure to government-related and corporate bonds, while slightly increasing duration.

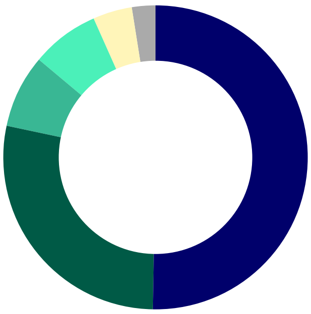
### Return in % as of 30-09-2020

| | 3 months | YTD | 1 year | 3 year avg | 5 year avg | 3 year volatility | 5 year volatility |
|---|---|---|---|---|---|---|---|
| **Fund** | 1.1 | 2.1 | -0.2 | 2.2 | 1.9 | 3.1 | 3.0 |
| **Benchmark** | 1.5 | 2.4 | 0.4 | 2.9 | 2.6 | 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 centers 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 | 50.4% |
| Social Inclusion and Empowerment | 28.1% |
| Prosperous and Healthy People | 7.7% |
| Renewable Resources | 7.3% |
| Sustainable Food and Agriculture | 4.1% |
| Innovation for Sustainability | 2.4% |
| Circular Economy | 0.0% |

The pie chart represents the holdings in corporate, sub-sovereign and impact bonds. Regular 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 Q3 2020

### Market developments

Geopolitical tensions intensified as US president Trump further hardened the country's stance towards China, and the UK announced plans to override parts of the Brexit withdrawal agreement. All major central banks kept their policies on hold, but the US Federal Reserve did present its new long-run strategy, which will be based on an average inflation target that allows for temporary overshooting. This likely means quantitative easing and ultra-low policies will be around for even longer.

### Investments

Global bond markets performed well during the third quarter. All market segments posted positive returns on the back of lower yields and improved risk sentiment. Government bond yields fell, as the global economic recovery appeared to be losing steam and investors feared the effects of stricter lockdown measures. The large fiscal and monetary stimulus packages have kept both interest rates and risk premiums low. Inflation expectations have been gradually rising to pre-Corona levels, but so far have remain muted. Corporate bond markets did well on the back of lower rates and tighter credit spreads.

During the summer holidays, however, bond markets faced increased volatility. A big positive contribution to market sentiment came from the EU leaders' agreement on the long-awaited EUR 750 billion European Recovery Fund (ERF). This perceived important step toward more solidarity between Eurozone countries has been especially positive for government bonds of peripheral European countries. A negative contribution came from the huge amounts of supply coming to the markets. Especially in the US, the record-high auctions of longer-dated treasuries have pushed the long end of the yield curve higher. The Fed's shift to average inflation targeting, combined with its reluctant stance toward adopting yield curve control as a monetary policy tool, did not help to anchor rates. In Europe, large volumes of fresh government bonds flushed the markets, also resulting in temporarily higher long-term yields during the summer period. But with data increasingly indicating that the global economic recovery seems to be losing momentum and lockdown fears re-emerging, European government bonds more than made up for the losses in the last couple of weeks.

### Companies added to the portfolio

- Fresenius Medical Care (Germany), the world's largest provider of products and services for individuals with renal diseases, was added to the portfolio as part of the Prosperous and Healthy People theme. The company specialises in kidney dialysis services through a network of outpatient clinics.
- Adidas (Germany), a manufacturer of athletic and sports lifestyle products that contribute to an active lifestyle and help to enable the improved health of its customers, was added to the portfolio as part of the Prosperous and Healthy People theme.

Next to these new names, the fund has increased holdings in a number of selected issuers including Terna (Italian electricity transmission company), KFW (German Development Bank; green bond), and Germany (Sovereign; green bond). All bonds contribute to our Sustainable Mobility and Infrastructure theme.

### Companies sold

- RCI Banque (France), Renault's financing arm, was sold due to operational underperformance versus peers and structural headwinds for the sector.

### Performance analysis

The fund generated a return of 1.1% after costs, while the benchmark yielded 1.5%. The underperformance is explained by a negative allocation and selection effect. Negative allocation effect was the result of the fund's underweight in corporates and overweight in government-related bonds relative to the benchmark. The negative selection effect resulted from our focus on higher-quality corporates and governments relative to the benchmark. The curve change and curve carry contributions were neutral.

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

| | Average weight | | Total return | | | | |
|---|---|---|---|---|---|---|---|
| **Q3 2020** | Portfolio | Benchmark | Portfolio | Benchmark | **Curve Change Contribution** | **Allocation** | **Selection** |
| **Total** | **100.00** | **100.00** | **1.17** | **1.48** | **-0.01** | **-0.15** | **-0.17** |
| Treasury | 31.88 | 39.99 | 1.28 | 1.72 | -0.04 | -0.02 | -0.13 |
| Corporates | 22.58 | 28.39 | 1.53 | 2.02 | -0.03 | -0.04 | -0.11 |
| Government-related | 41.89 | 21.26 | 1.00 | 0.80 | 0.09 | -0.14 | 0.07 |
| Securitized | 2.98 | 10.35 | 0.45 | 0.50 | -0.03 | 0.06 | 0.00 |
| Cash | 0.66 | 0.00 | 0.00 | | 0.00 | -0.01 | 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

Globally, we have entered a trial-and-error phase, in which localised COVID-19-related restrictive measures are gradually lifted until the situation forces a pause or step back. Recent virus upsurges in Europe have already led to more stringent national measures and harsher measures could become inevitable. This is still not our baseline scenario, as governments will do everything possible to prevent lockdown measures that would hurt economic activity as much as they did earlier this year. Furthermore, chances of a disputed US presidential election result on November 3 and resulting turmoil have severely increased in the wake of recent comments by Trump, not to mention POTUS falling ill himself. Overall, we think this means that the global economic recovery will likely further stall in the last quarter of the year.

'Safe haven' government bond yields remain near historical lows; hence, their return potential is low. We are, however, in the midst of a low yield environment and monetary support will likely remain extremely accommodative. When it comes to credits, the growth environment makes us cautious. We prefer high quality names as the collapse in economic activity is likely to trigger a rise in downgrades.

### 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.

$CO_2$

↓70%

GHG Emissions

Equal to emissions of driving 2,545 times around the globe

↓44%

Water used

Equal to the water use of 13.6 million daily showers

↓48%

Landfill waste

Equal to 29,579 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 September 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 | 1.4% |
| 0.100% Ile de France 2020 - 2030 | 1.4% |
| 1.750% Council of Europe Development Bank 2014 - 2024 | 1.3% |

### Top 5 Sovereign holdings

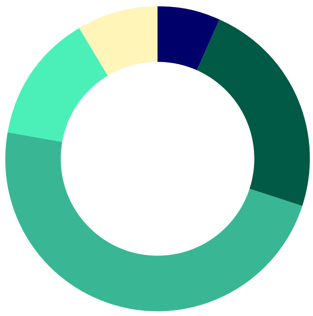
| | |
|---|---|
| 1.750% French Government bond 2016 - 2039 | 2.7% |
| 1.350% Irish Government bond 2018 - 2031 | 2.4% |
| 0.500% Dutch Government bond 2019 - 2040 | 2.3% |
| 1.250% Belgium Government bond 2018 - 2033 | 1.8% |
| 4.750% German Government bond 1998 - 2028 | 1.7% |

Source: RBC Investor services

### Breakdown by risk category
As per end of September 2020

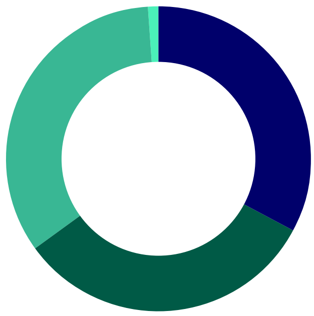
| | % of portfolio |
|---|---|
| AAA | 23.2% |
| AA | 29.9% |
| A | 24.5% |
| BBB | 22.3% |

### Breakdown by duration
As per end of September 2020



| | % of NAV |
|---|---|
| 0-2 year | 6.9% |
| 2-5 year | 23.3% |
| 5-10 year | 47.7% |
| 10-15 year | 13.6% |
| > 15 year | 8.5% |

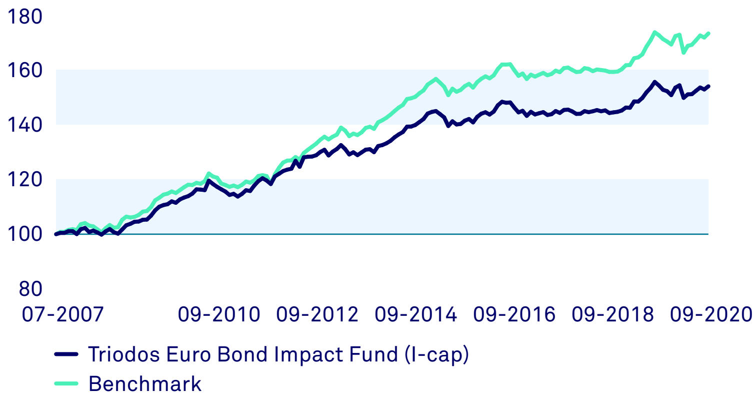
### Breakdown by investments
As per end of September 2020



| | % of portfolio |
|---|---|
| Corporate bonds | 33.0% |
| Green | 3.6% |
| Regular | 27.9% |
| Social | 1.6% |
| Sovereign bonds | 32.0% |
| Green | 10.8% |
| Regular | 21.2% |
| Sub-sovereign bonds | 34.1% |
| Green | 17.8% |
| Regular | 13.9% |
| Social | 2.4% |
| Liquidity | 0.9% |

Source: RBC Investor services

### Return chart since inception




| Triodos Euro Bond Impact Fund | Portfolio | Benchmark |
|---|---|---|
| Modified Duration | 7.3 | 7.0 |
| Yield | -0.09 | 0.06 |
| Convexity | 0.86 | 1.02 |
| Average Rating | AA-/A+ | AA-/A+ |
| SII Capital Charge | 4.4 | 3.5 |
| SWAP Spread | 23.62 | 41.1 |
| Spread Duration | 7.3 | 6.95 |
| Duration Times Spread | 2.08 | 3.52 |

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 and 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: German sovereign green bond

Germany is highly committed to achieving its climate goal of carbon neutrality by 2050. It has emission goals for sectors including transport, energy, industry, agriculture and waste management. The country's green securities will be used to finance projects that contribute to achieving these goals. Building more environmentally friendly and energy-efficient public transportation, promoting use of bicycles and speeding up e-mobility technology are all important ingredients.

Part of the proceeds of Germany's newly issued green bond will be deployed in the form of subsidy. For instance, Deutsche Bahn (German railway operator) will receive subsidies financed through these green bonds to maintain a sustainable railway system. This bond contributes to our Sustainable Mobility and Infrastructure, Renewable Resources, and Sustainable Food and Agri transition themes. Part of the proceeds will also be used to fund research initiatives that contribute to energy efficiency and renewable energy development, for example financing renewable energy projects in India.

German sovereign bonds serve as a reliable reference for interest rate products in the euro area, because of the extraordinary credit quality of the German government and the high liquidity of its securities. In addition, the transparency on green spending in the federal budget will help setting a standard for the green bond market. Another important aspect is that the German state has adopted a Green Twins model, to ensure that its conventional benchmark status does not get influenced by the new green bond issues. This means that for each new green bond, the sovereign will issue a conventional bond with the same maturity. Germany aims to issue 2-, 5- and 30-year green bonds in the short term and wants to establish a reliable green yield curve in the medium term.

Superior credit quality, reliable market presence and transparent issuance policy make this German sovereign green bond one of the green bond market highlights of this year.

## Active engagement with companies

- Vodafone (Electrification)
  In July, we signed two collaborative investor letters via ShareAction asking Vodafone to join EV100. This is a global initiative aimed at accelerating the transition to electric vehicles by 2030 by asking companies to publicly commit to EV purchasing on an ambitious timescale.
- Impact Bond Frameworks
  Over the course of the third quarter, we had investor calls with the following four entities to discuss the details of their green or social bond frameworks: Hamburger Hochbahn, German Republic, Rentenbank and Munifin.

See how Triodos Investment Management maximises its influence on the companies it invests 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 June 2020: 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.
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