Triodos Impact Mixed Fund - Neutral

Quarterly Report Q3 2020

FOR PROFESSIONAL INVESTORS AND FINANCIAL ADVISORS ONLY

Triodos Impact Mixed Fund - Neutral aims to generate positive impact and competitive returns from a concentrated portfolio of global equity positions and investment-grade corporate, sovereign and sub-sovereign 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 30-09-2020

Net assets EUR 500.3 million

Number of shares outstanding
13,162,033

Share class* I-cap

NAV per share EUR 40.11

Ongoing charges (30-06-2020)
0.58% (incl. 0.42% management fee)

Morningstar rating™ ★★★★★

Fund facts

Fund inception date June 2010

I-cap launch date March 2012

Asset type
Long-only, mixed equity / fixed income

Benchmark
50% MSCI World Net Total Euro
30% iBoxx Euro Non-Sovereigns Eurozone Net Total Return
20% iBoxx Euro Sovereigns Eurozone Net Total Return

ISIN code LU0504302943

Bloomberg code TRISMIC: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

Supervisor CSSF in Luxembourg

Risk level based on European guideline
4 (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 Impact Mixed Fund - Neutral generated a return (after costs) of 3.0%, while the benchmark yielded 2.5%.
- The fund's net assets increased from EUR 468.2 million, to EUR 500.3 million at the end of Q3.
- Portfolio was defensively positioned (i.e., underweight equities and overweight high-quality bonds) per our view that the probability of an equity correction and a rise in downgrades has significantly increased.

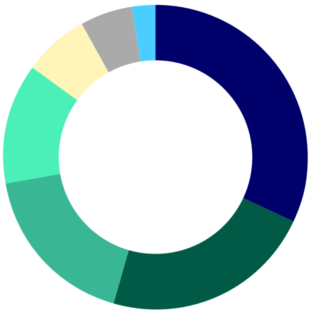
Return in % as of 30-09-2020

	3 months	YTD	1 year	3 year avg	5 year avg	3 year volatility	5 year volatility
Fund	3.0	0.2	1.2	4.5	3.9	6.3	5.7
Benchmark	2.5	0.3	1.9	5.2	5.5	8.3	7.1

All returns stated were calculated based on net asset value I-cap share, including reinvestment of dividends where applicable. 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	32.2%
Prosperous and Healthy People	22.5%
Social Inclusion and Empowerment	17.7%
Innovation for Sustainability	12.8%
Renewable Resources	7.1%
Sustainable Food and Agriculture	5.5%
Circular Economy	2.3%

The pie chart represents the holdings in corporate, sub-sovereign, impact bonds and equity. Regular sovereign bonds are used for liquidity management of the portfolio.

William de Vries
Fund Manager

"Triodos Impact Mixed Fund - Neutral generates positive impact and competitive financial return through a diversified portfolio of equities and bonds issued by companies driving the transition to a more sustainable, resilient economy."

Triodos Investment Management

Financial review Q3 2020

Market developments

Global equity markets continued their upward trend until the beginning of September. During this period, incoming economic data was better than expected. Continued strong equity market performance was a result of (1) the record fiscal and monetary stimulus that had been implemented earlier in the year, (2) the ultra-low interest rate environment, (3) the shift from countrywide COVID-19-related lockdowns to localised restrictions and (4) anticipated compressed vaccine timelines.

In September, equity markets experienced a correction. It started with some healthy repricing of the dominant US technology stocks, then also spread to other sectors. This risk-off mode was caused by virus upsurges in Europe, fading hopes for a quick additional US fiscal stimulus deal, increased uncertainty surrounding the upcoming US presidential elections and signs that the global economic recovery was losing momentum.

Meanwhile, 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 going forward. This likely means quantitative easing and ultra-low policies will be around for even longer.

Investments

Based on the disconnect between economic fundamentals and equity market valuations, the fund continued to be positioned defensively during the quarter (i.e., underweight equities and overweight high-quality bonds).

Investors from across the globe continued to jump on the 'FAANG' (Facebook, Amazon, Apple, Netflix, Google) bandwagon which, along with a few other names, clearly spearheaded the equity markets. Due to our views on data privacy, abuse of market power, labour standards and other company-specific issues that violate Triodos' Minimum Standards, as well as the current valuation multiples paid for these companies, the fund missed out on the strong performance contribution of these names on their way up. And also on their way down, as their stock prices were corrected towards the end of the quarter.

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

Equities

- Sekisui House (Japan), one of the largest (pre-fabricated) house builders in the world with an international footprint was added within the Sustainable Mobility and Infrastructure theme. Sekisui House designs and constructs single-family houses, apartment and condominium buildings. It is also involved in developing commercial facilities such as offices, retail facilities, hotels, hospitals and nursing care homes. Sekisui House has a very strong foothold in Zero Energy Houses in Japan. The company also is a leader in the 'Gohon no ki' (five trees) native tree landscaping concept that promotes biodiverse landscaping and embeds houses and buildings into the surrounding ecosystem, which fits nicely with our sustainable investment beliefs.
- NortonLifelock (US), a consumer cyber security software and identity protection service provider, was added to the portfolio within the Innovation for Sustainability theme. NortonLifeLock, previously known as Symantec, divested its enterprise security business at the end of 2019 and now operates exclusively in the consumer cybersecurity sector.

Bonds

- **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. Adidas was already part of the equity part of the portfolio.
- The fund also participated in the green bond issued by Germany (Sustainable Mobility and Infrastructure) and a social bond issued by MuniFin (Social Inclusion and Empowerment).

Companies sold

Equities

- **Kubota,** a Japanese company manufacturing farm machinery (tractors), construction machinery engines and fluid piping systems. Kubota was sold as we felt its stock price performance was ahead of its fundamentals. While Kubota fits well within the Sustainable Food & Agriculture theme, the company is still lacking a set of clearly defined ESG-related management KPIs, which was a bit disappointing.
- **Jones Lang Lasalle,** a US company providing real estate and investment management services, was sold given the deteriorating fundamentals of the real estate sector in general. We think that working from home will have a structural impact on the office real estate market and, therefore, that JLL's business will be impacted as well.

Bonds

- The fund accepted a repurchase offer from Merck KgaA for the bond position in portfolio resulting in zero allocation to this issuer. The fund accepted the tender because of the limited liquidity of the bond.

Performance analysis

Triodos Impact Mixed Fund – Neutral (3.0% I-cap) outperformed its benchmark (2.5%) this quarter. Allocation and currency effects were positive as a result of our defensive asset allocation and the fund's underweight US position, respectively, as the US dollar deteriorated over the quarter. The selection effect was negative mainly due to the underweight position in equity, as stock markets rallied.

Performance attribution in % (quaterly gross excess returns)*

	Average weight		Total return		Allocation	Selection	Currency
Q3 2020	Portfolio	Benchmark	Portfolio	Benchmark	effect	effect	effect
Fixed Income	48.94	49.82	1.22	1.45	-0.04	-0.11	0.00
Equity	44.33	50.18	5.14	3.44	0.74	-0.79	0.88
Holdings in funds	3.91	0.00	3.08	0.00	-0.05	0.00	0.00
Cash	2.81	0.00	0.00	0.00	-0.12	0.00	0.00
Total	**100.00**	**100.00**	**3.02**	**2.50**	**0.54**	**-0.90**	**0.88**

Source: Triodos Investment Management, Bloomberg. Note: based on average weights, fund performance gross of management fees and dividends.
* Returns stated are gross returns, thus before any charges are deducted. Returns stated elsewhere are net returns.

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.

The fund remains cautious, as in our view equity valuations are still elevated beyond what the fundamentals imply and central banks cannot keep financial assets inflated forever. We think negative earnings surprises are lurking, in which case a stock market correction would be entirely warranted. Overall, we will continue investing in companies with solid impact and sustainability fundamentals, sound balance sheets, strong management teams and decent cash flow visibility.

'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 equity portfolio, below, demonstrate the lower environmental impacts of the portfolio companies' activities compared to the MSCI World Index. 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

↓52%

GHG Emissions

Equal to emissions of driving 6,601 times around the globe

↓49%

Water used

Equal to the water use of 68.5 million daily showers

↓43%

Landfill waste

Equal to 148,312 household garbage bags of waste

The footprints are calculated only for the listed equity holdings of the fund. We use carbon emissions data from ISS ESG, and water and waste data from S&P Trucost (copyright c 2018 S&P Trucost Limited). Ltd. For Triodos Impact Mixed Fund - Neutral, the ecological footprint is based on the equity part (or 50%) of the portfolio. For the MSCI World Index benchmark, coverage by weight is 98% for carbon, 98% for water data and 98% for waste. Coverage of assets invested – by weight – is 100% for carbon, 100% for water, and 100% for waste.

Portfolio as per end of September 2020

Top 5 Bond holdings

0.500% Dutch Government bond 2019 - 2040	1.4%
0.000% Kreditanstalt fuer Wiederaufbau 2020 - 2028	1.0%
4.500% Italian Government bond 2013 - 2024	1.0%
1.350% Irish Government bond 2018 - 2031	1.0%
1.750% French Government bond 2016 - 2039	1.0%

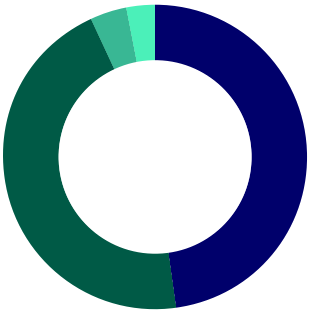
Source: RBC Investor services

Top 5 Equity holdings

KDDI	1.7%
Central Japan Railway	1.5%
Roche Holding	1.5%
Taiwan Semiconductor	1.4%
Vestas Wind Systems	1.4%

Asset allocation

As per end of September 2020



	% of NAV
Bonds	47.8%
Equities	45.5%
Investment Funds	3.8%
Liquidities	2.9%

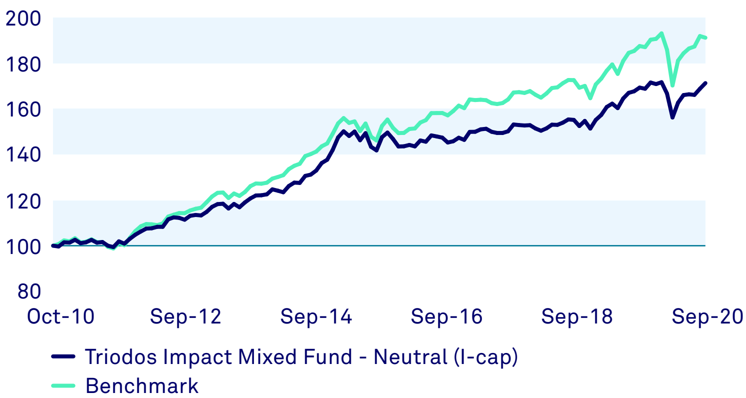
Source: RBC Investor services / Triodos Investment Management

Liquidity profile

Equities: Time to liquidate 99% within 1 day.
Sovereign bonds: Time to liquidate 100% within 1 day.
Non-sovereign bonds: Time to liquidate within 1 week.

Source: Triodos Investment Management

Return chart since inception*



* Source: Triodos Investment Management, RBC Investor Services

Return last calendar years in %

	2019	2018	2017	2016	2015
Fund	12.2	-1.4	3.1	-0.1	6.1
Benchmark	15.8	-1.4	3.5	6.4	4.8

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

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

As the built environment accounts for 8% of total fuel combustion worldwide, a change in the way we build our houses and offices is essential. We should collectively 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.

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. Carbon emissions from transportation account for 20% of total fuel combustion worldwide. Sustainable mobility is therefore paramount if we want to achieve climate stability and clean air. 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 carbon footprint, such as public transport solutions and electric vehicles).

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: Sekisui Chemical

Sekisui Chemical is a material producer active across transportation, infrastructure, buildings and housing, based in Osaka, Japan. During the quarter, we discussed the company's new mid-term plan 'Innovation for the Earth' with its management team.

Sekisui Chemical joined RE100, which is a coalition of companies that aim for 100% of the electricity they use to come from renewable sources. The company also received accreditation from the Science Based Targets initiative (SBTi) for its CO_2 emission reduction targets. Currently over 80% of the company's customers buy a house equipped with solar panels, and Sekisui Chemical started buying the excess electricity generated from these to use in its own operations. An interesting innovation in the company is the integration of ESG into the firm's cost of capital. Each business unit has a hurdle rate for new investments, which is adjusted for several ESG factors, for example safety, compliance, environmental impact, ethics, etc. This will stimulate the company's business units to develop products that have positive environmental impacts (these kinds of products are currently 60% of sales, but the company has set a target of 100% for 2030). Other initiatives focus on mitigating resource depletion using Reduce, Reuse and Recycle principles. The company already has zero waste-to-landfill from its production sites and is taking further initiatives to incorporate end-of-life reuse or recycle solutions in the development of new products. Earlier this year, Sekisui Chemical ranked 12th in the Global 100 Most Sustainable Companies announced at the World Economic Forum and is now the highest-ranking Asian company.

Active engagement with companies in portfolio

- Starbucks (child labour allegations)
  In September, Triodos concluded the engagement with Starbucks on the allegation of child labour in its supply chain after several rounds of communication with the company. In the end, Starbucks' supply chain due diligence programme was assessed to be credible and comprehensive with adequate control mechanisms in place. Improvements are being made by increasing the number of audits both in terms of frequency of verifications and sampling procedures, and by updating the CAFÉ practices programme (version 3.5). The company's focus on detection and verification, as well as root-cause analyses to identify the underlying/systemic issues at community-level, is a promising approach to prevent child labour.
- Inditex (Labour rights and living wages)
  As part of the Platform on Living Wage Financials (PLWF), Triodos IM was the lead-investor for Inditex on behalf of the investor initiative. Our analyst team assessed the company on its living wage policy, impact measurement, performance tracking and transparency. Inditex achieved similar results to its previous years performance. Furthermore, in a separate assessment, we examined the company's response to the COVID-19 challenges. The results were shared in the annual PLWF webinar on 6th and 7th October.
- International Paper (Energy productivity targets)
  International Paper is one of the world's largest producers of fibre-based packaging, pulp and paper. Through the collaborative investor network, ShareAction, the company was requested to set energy productivity targets, in addition to its existing targets on reducing absolute GHG emissions. These additional targets are to align the company's business goals with reducing operational energy consumption. As part of its new Vision 2030, International Paper focuses on four targets, with sustainable operations being one of them. In 2020, International Paper set the target to reduce their scope 3 greenhouse gas emissions within the supply chain by 35% in line with the latest climate science.
- Nike (Political campaign contributions)
  Corporate political contributions may influence elections and could be viewed as interfering with the democratic process. Hence, at the AGM of Nike, we voted in favour of a shareholder resolution that urged the company to construct policies and procedures for making political donations, and to publish the monetary and non-monetary contributions, including the identity of the recipient as well as the amounts paid. Triodos IM generally opposes political donations, but in case these are made, supports proposals to disclose contribution amounts, and the objectives and rationale for making such a contribution.

- 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 its 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 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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