Triodos Sustainable Mixed Fund

Quarterly Report Q3 2018

FOR PROFESSIONAL INVESTORS AND FINANCIAL ADVISORS ONLY

Triodos Sustainable Mixed Fund 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 30-09-2018

Net assets
EUR 306.9 million

Number of shares outstanding
8,841,280

Share class* I-cap

NAV per share EUR 36.33

Ongoing charges (as per 30-06-2018)
0.83% (incl. 0.60% 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
40% MSCI World Net Total Euro
36% iBoxx Euro Non-Sovereigns Eurozone Net Total Return
24% iBoxx Euro Sovereigns Eurozone Net Total Return

ISIN code LU0504302943

Bloomberg code TRISMIC:LX

Investment manager
Triodos Investment Management

Fund manager Erik Breen

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

Fund performance in brief

- The fund generated a return of 1.4% in Q3 2018, underperforming against the benchmark (1.9%)
- The fund's net assets increased from EUR 299.4 million to EUR 306.9 million
- Both equity and bonds contributed to the underperformance
- Bonds have a neutral weighting, stocks a slightly underweight position

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	1.4	1.6	3.3	3.0	5.5	4.2	5.2
Benchmark	1.9	3.4	5.2	5.7	6.9	4.3	4.9

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

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 report on the portfolio's environmental footprint (see page 3).

Social Inclusion and Empowerment	30.7%
Prosperous and Healthy People	22.4%
Sustainable Mobility and Infrastructure	18.5%
Innovation for Sustainability	10.5%
Sustainable Food and Agriculture	8.3%
Renewable Resources	5.1%
Circular Economy	4.5%

Erik Breen
Fund Manager

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

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

In our allocation to equity, we continued to diversify risk within and across the themes, industry sectors and regions. The exposure to Japan has been increased by new holdings in Sekisui Chemical (Sustainable Mobility & Infrastructure), Yamaha (Prosperous & Healthy People) and KDDI (Social Inclusion & Empowerment). The fund's portfolio will be readjusted gradually. Going forward, it will be more evenly diversified across geographical regions and economic sectors. The main valuation criteria in our selection process are growth, cash flow and capital return characteristics. Croda International (Renewable Resources) was also added to the portfolio. These stocks replace holdings in China Everbright, Continental, Essilor, Great Portland, Hain Celestial, Whitbread and ING Bank. Most companies were sold for financial reasons (China Everbright, Continental, Hain Celestial, Essilor and Great Portland). ING was sold for failing to comply with our thematic fit.

For fixed income too, we are implementing our thematic positive impact approach. Of course, this new approach is implemented whilst safeguarding the concentration and diversification risk. Positions in corporate bonds of companies with no clear theme fit have been sold, which was particularly the case for many financials. Financials sold are ABN Amro, Danske Bank, Credit Foncier, UBI Banca, ING Bank and Svenska Handelsbanken. Other positions that were sold are WPP, Publicis and Booking. We enlarged or added positions in corporate bonds to maintain our corporate weighting in the portfolio. We enlarged or added positions to the portfolio in DSM, ASML, Essity, Vodafone, Deutsche Post, British Telecom, Telenor, Toyota, Terna, SAP, FMO, Evonik, Philips, BMW, Akzo Nobel, Carrefour and Deutsche Telekom. The fund's exposure to impact bonds was enlarged by adding a green bond from Agence de France.

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 a result of stimulus measures by the Chinese government. 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 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

The fund slightly underperformed the benchmark in the third quarter. Both equity and fixed income contributed to this underperformance. The third quarter was negative for fixed income investments. The relative interest rate exposure was close to zero, although the fund encountered some curve return thanks to a small overweight in longer-dated corporates and sub-sovereigns resulting from new issuances. Both allocation and selection effects were close to zero.

The best performing equity sector was the Health Care sector, closely followed by Information Technology. The Real Estate sector delivered a negative return due to globally slightly increased bond yields. Sector allocation contributed positively, while stock selection had a negative impact on third quarter performance. Currency contribution was slightly negative due to a small appreciation of the US dollar.

Performance attribution in %

	Average weight		Total return			
Q3 2018	Fund	Benchmark	Fund	Benchmark	Allocation effect	Selection effect
Fixed Income	57.3	60	-0.63	-0.56	0.02	-0.04
Equity	36.9	40	5.37	5.53	-0.17	-0.06
Cash	5.9	0	0.00	0.00	0.00	0.00

Source: Triodos Investment Management, Bloomberg.
Note: based on average weights, fund performance gross of management fees and dividends.

Environmental ~~impact~~

The carbon, water and waste footprints of the fund's portfolio, show the environmental performance of the portfolio companies' compared to the MSCI World Index. By publicly reporting these footprints, we aim to enhance the transparency of the financial industry about its impact on climate change and the environment and also to show the opportunities for the industry to accelerate the transition to a more sustainable economy. We consider these figures a result of the investment strategy, and not as a primary portfolio steering tool. The positive impact, i.e. the contribution to a sustainable future, derives from our seven transition themes (see theme allocation on page 1) and is not in scope here.

↓61%
GHG Emissions

↓39%
Water used

↓25%
Landfill waste

The footprints are calculated only for the listed equity holdings of the fund. We use carbon emissions data from Oekom research AG, and water & waste data from S&P Trucost (copyright c 2018 S&P Trucost Limited). For the MSCI World Index benchmark, coverage by weight is 92% for carbon, 90% for water data and 85% for waste. For the funds listed equity assets, 100% is covered by carbon data & water data and 89% by waste data. See page 8 for a more detailed explanation of the calculation methodology.

Portfolio as of 30-09-2018

Top 5 Bond holdings

0.500% German Government bond 2015 - 2025	2.5%
1.750% French Government bond 2016 - 2039	2.2%
4.000% German Government bond 2005 - 2037	1.4%
0.000% German Government bond 2016 - 2026	1.3%
2.250% French Government bond 2012 - 2022	1.3%

Source: Triodos Investment Management, RBC Investor Services

Top 5 Equity holdings

Cisco Systems	1.3%
Central Japan Railway	1.2%
Roche	1.1%
Anthem	1.0%
Bridgestone	1.0%

Breakdown by investments

As per end of September 2018

Bonds	59.4%
Equities	37.7%
Liquidities	2.9%

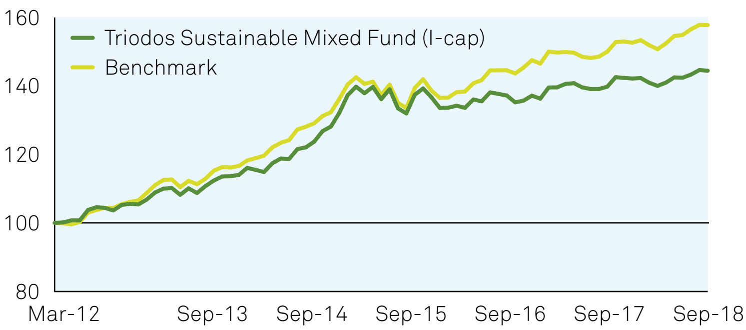
Source: Triodos Investment Management, RBC Investor Services

Liquidity profile

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

Source: ~~Delta Lloyd Asset Management~~

Return chart since inception.



Return last calendar years in %

	2017	2016	2015	2014	2013
Fund	3.7	0.3	6.6	12.8	7.6
Benchmark	3.5	6.4	4.8	13.9	9.5

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

Sustainability in the spotlight: The Triodos transition themes: Renewable resources

In every Quarterly Report of Triodos Sustainable Mixed 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

- Voting at 7 Annual General Meetings (AGM) in the third quarter of 2018, bringing the total number of votes for this year to 52 of the 60 companies of which the fund holds equity investments per 30 September.
- Adidas, Inditex and Nike were informed about the results of the progress-review on their efforts to advance living wages in their supply chains. Adidas and Inditex are leading within the target group, Nike is a step behind. The investor cooperation on living wages was further extended, and on 27 September, the cooperation was publicly launched as ´Platform Living Wages Financials´, with now eight Dutch investors, with a combined EUR 725 billion in assets under management.
- 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.
- Letter sent to Denso as part of the Investor Decarbonisation Initiative, led by Share Action. The letter calls upon Denso to set greenhouse gas reduction targets in line with the Paris Agreement on Climate Change.
- Letter sent to Henkel to inquire about an alleged case of environmental pollution by one of its factories in India. The company provided adequate answers and the case is closed as a minor concern.

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.

Environmental footprinting

The data in this report represent the fund's carbon, water and waste footprint through its investments.
Measuring the carbon footprint, for example, provides insight in the greenhouse gas emissions that the fund 'owns' and reflects also the choices made as result of the investment strategy, such as excluding oil & gas companies and fossil fuel focused power utilities. Underlying data also allow for further analysis of exposure to greenhouse gas intensive industries and companies.

Methodology

The carbon footprint of investee companies is calculated according to the Greenhouse Gas Protocol (GHG Protocol), a standard for emissions calculation. This protocol divides a company's emissions in three scopes: scope 1 is a company's direct emissions, scope 2 are emissions from purchased power (electricity, steam, heat or cooling for own use) and scope 3 includes emissions from purchased products / parts used, but also emissions caused by a company's products when used. The data in this report are based on scope 1 and scope 2 emissions, as these emission data are available from carbon data providers, whereas approaches to scope 3 emissions are being developed and less standardised compared to scope 1 and 2. Quality scope 3 data are therefore not yet sufficiently available for consistent reporting.

Calculation

A company's carbon footprint is calculated based on its enterprise value (EV), as recommended by Platform Carbon Accounting Financials (PCAF), rather than on the more widely used market cap. We use EV because this encompasses the sum of all outstanding shares and bonds. Given that our SRI funds also invest in corporate bonds, calculation based on EV best represents the share of 'ownership' and avoids double counting.

Absolute footprint

The fund's total, absolute carbon footprint in tons of CO_2 (tCO_2) is the sum of the GHG-emissions (scope 1 and 2) of the companies in portfolio, based on the fund's share in each individual company: for each company in portfolio we calculate our share of the ownership, dividing the value of our shares and/or bonds by the total value of all outstanding shares and bonds (the EV). The company's total GHG-emissions multiplied by our share in total enterprise value is the footprint per company. The portfolio's total carbon footprint is the sum of the fund's 'owned' shares in the carbon footprint of all investee companies.

As the data about a company's environmental performance are not reported per quarter, like key financial data, and have to be compiled, checked and to some extend modelled by our data providers, there is a time-lag in the environmental footprinting. We use most recently available data from our providers, which today means, data from at least one year ago. So in Q3 of 2018, we use GHG, water and waste data over FY 2016-17, and also company enterprise value and revenues per end of this reporting year. However, we present the footprint based on the current composition of the fund, so we use the portfolio composition per end Q3 2018.

Relative footprint

The data in the graphics on page 3 are based on the absolute carbon footprint of the fund's portfolio. The relative footprint is calculated by dividing the absolute footprint by the total value of the fund, thus arriving at a number of tons emitted per million euros invested. If, for example, the absolute footprint is 100 million tons CO_2 and the fund's total value is 100 million euro, the relative footprint would be 1 ton CO_2 per million invested, or 1 tCO_2/mln EUR.

Difference to benchmark

The key metrics that we report show the difference between the fund footprint and the benchmark index. The carbon footprint is ~~65%~~ lower than that of the MSCI World Index. The difference clearly shows the less negative impact of sustainable investment compared to a mainstream index.

Water & waste

The footprints for water and waste are calculated in a similar way as the carbon footprint. The water footprint is calculated in cubic meters (m3) of water use, the waste footprint in tons of waste produced. We include direct and indirect water use, to provide the most complete picture of a company's water footprint, including the water used in its supply chain. The calculations show, for example, that financials have low direct process water and low indirect process water, whereas utilities have very high direct process water, and food products companies typically have high indirect water use.
For the waste footprint we take a broad approach, including waste to landfill and waste to incineration, both direct, and indirect through products and services purchased.

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

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