RI Spotlight

January 2024

Sustainable Finance

Triton

Triton at a glance[1]

Founded in
1997

Professionals accross
11 offices

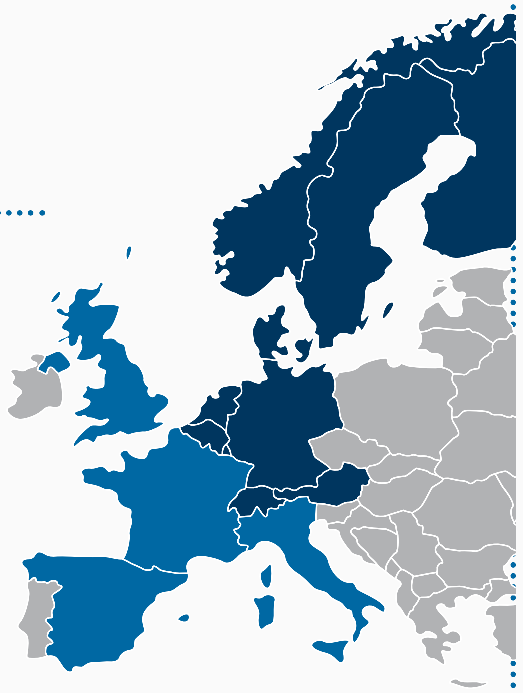
Integrated operating & specialist teams

€16 billion
Raised since inception

190+
Institutional investors

130+
Investment and operating professionals across four sector teams

30+
Specialists supporting value creation throughout the investment life cycle



Portfolio companies

90+
Investments since inception

450+
Add-on acquisitions completed

€18 billion+
Combined portfolio revenues

100,000+
Full-time employees at portfolio companies

Core Triton sectors

- Business Services
- Industrial Tech
- Consumer
- Healthcare

Strategies

Capital raised

€13.2bn
Mid-Market PE

€1.3bn
Smaller Mid-Market PE

€1.5bn
Credit

[1] As of December, 2023

Triton and its portfolio companies (PCs) benefit from West Park and the services provided by it. Since its formation in 2007, West Park has become a core part of Triton's "Building Better Businesses" strategy and approach. West Park is able to provide a range of value-adding services to support the investment process and portfolio companies that would otherwise be provided by third parties.

Triton

Mid-Market PE	Smaller Mid-Market PE	Credit

WestPark

Full potential	Leadership & Culture	Finance Legal / Tax	Comms	Digital
Procurement	Emerging markets	Senior industry experts	Operating partners	ESG

Triton
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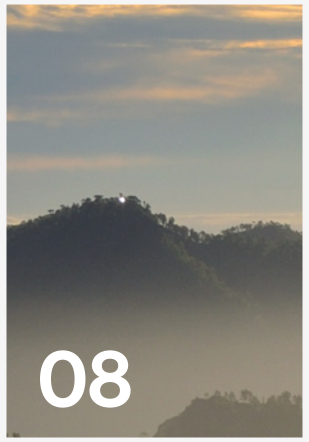


Welcome from our Managing Partners

Peder Prahl
CEO & Firm Managing Partner

Martin Huth
Firm Managing Partner

> The focus on corporate and financial sustainability has never been greater. Companies in all sectors are under increasing pressure to establish governance structures which ensure operations are not damaging to the environment nor negative for society.

At Triton, we also believe there are clearcut opportunities for companies to bring to market products and services which enable a more sustainable future.

Aligned to the corporate sustainability trend is the emergence of a new variant of capital raising. Over the past 15 years, countries and multinational organisations have been joined by public and private companies in raising capital through sustainable finance solutions – most commonly bond issuance and loans. For companies which offer sustainable products and services, and can demonstrate that they produce and operate in a sustainable manner, such solutions mean that capital can be raised at a preferential rate. This is a tangible benefit from pursuing sustainable outcomes – a win-win.

With the emergence of the sustainable finance industry has come the development of standards, product diversification and a broadening range of issuers and themes. In this short report, we look at the evolution of the market, and consider the steps Triton has taken - including raising fund-level loans and supporting portfolio companies in issuing sustainable bonds. We think it is crucial, to the ability of the private equity industry to contribute to the global sustainability agenda, that it is well-positioned as sustainable financing goes from niche offering to mainstream capital markets solution.

You can email us at:
esg@triton-partners.com

Triton Sustainable Finance - January 2024

USD 3.9trn
Cumulative volume of green and sustainable debt, as at Q1 2023

Climate Bonds Initiative

The emergence of sustainable finance

The past 15 years have seen the growth of a new type of capital raising - sustainable finance. Entities typically seek preferential rates of interest by tying the capital to environmental or social outcomes. Sustainable finance has grown from a tiny niche to an increasingly recognised means of accessing the markets for funding.

The market has diversified in many ways, including the following -

Capital-raising entity:

Since the European Investment Bank and World Bank issued the first green bond in 2007, the list of entities tapping the markets for sustainable financing now includes other multinational organisations, sovereign issuers, municipalities, and private and public companies.

Quality and quantity:

The World Bank recently stated that there are encouraging signs that the quality of sustainability-linked bonds is improving[1]. This was also backed up by industry watchdog, Climate Bonds Initiative, which said that bonds issued in 2023 were the most promising yet[2], in terms of quality, with 27% qualifying for inclusion in its database, which requires that targets cover all material sources of emissions and are in line with decarbonisation pathways.

One recent report found that almost one-in-five sustainability-linked bonds pose a greenwashing risk[3] . The model developed rates the bonds based on three pillars:

- relevance of the key performance indicator chosen
- ambition of the target set materiality of the financial change triggered
- by performance against the target.

The quantity of issuance has also increased dramatically, as the chart on cumulative issuance shows. Supranational organisations, such as the European Central Bank and the World Bank, are also major issuers.

Types of sustainable finance solutions:

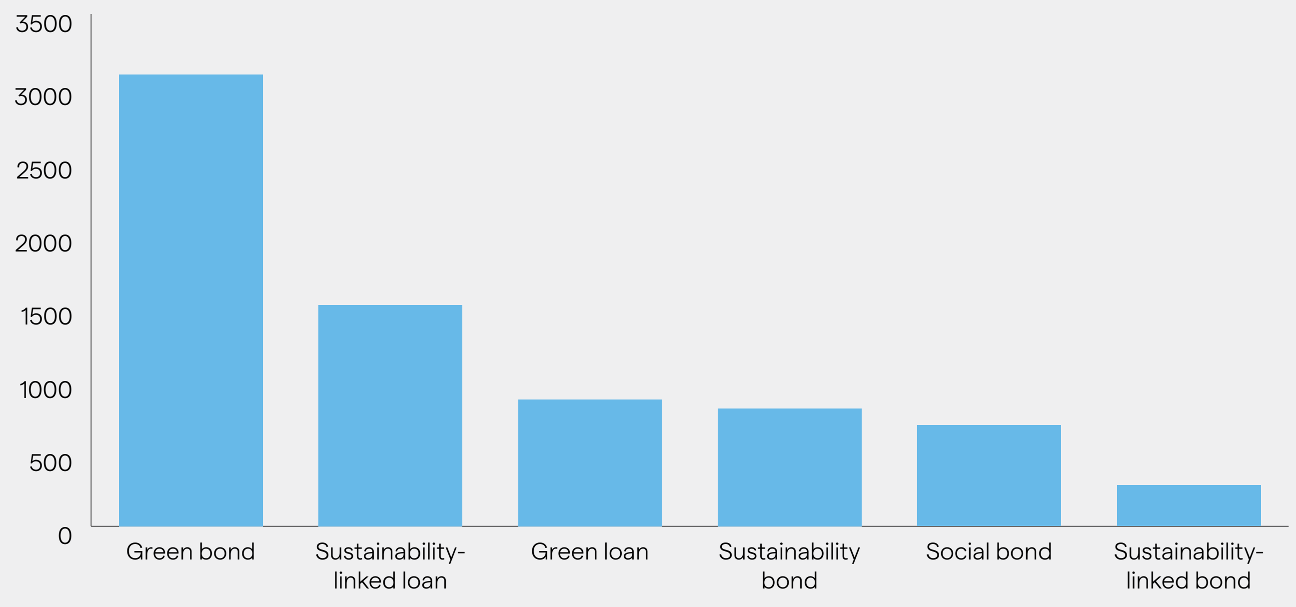
Sustainable finance is an increasingly broad category. It includes debt solutions – loans and traded bonds.

Sustainable debt solutions may be activity-based, referring to an intended environmental or social outcome, or behaviour-based, linking the financial component to a sustainability target.

- Green bonds: issued to finance activity-based projects with the intention of positive environmental impact - projects such as renewable energy and pollution prevention may qualify.
- Green loans: lending to fund sustainable activities (eg. renewables and efficiency, similar to green bonds).
- Sustainability-linked bonds (SLBs): behaviour-based issuances, where preferential lending rates are triggered by meeting measurable sustainability goals within specified timeframes.
- Sustainability-linked loans (SLLs): lending, like SLBs, to be linked to and drive improving sustainability performance.
- Sustainability bonds: activity-based, via a combination of positive green and social impacts.
- Social bonds: activity-based lending to finance the combination of positive social impact.
- Transition bonds: issued to fund a company's transition to more sustainable business practices.

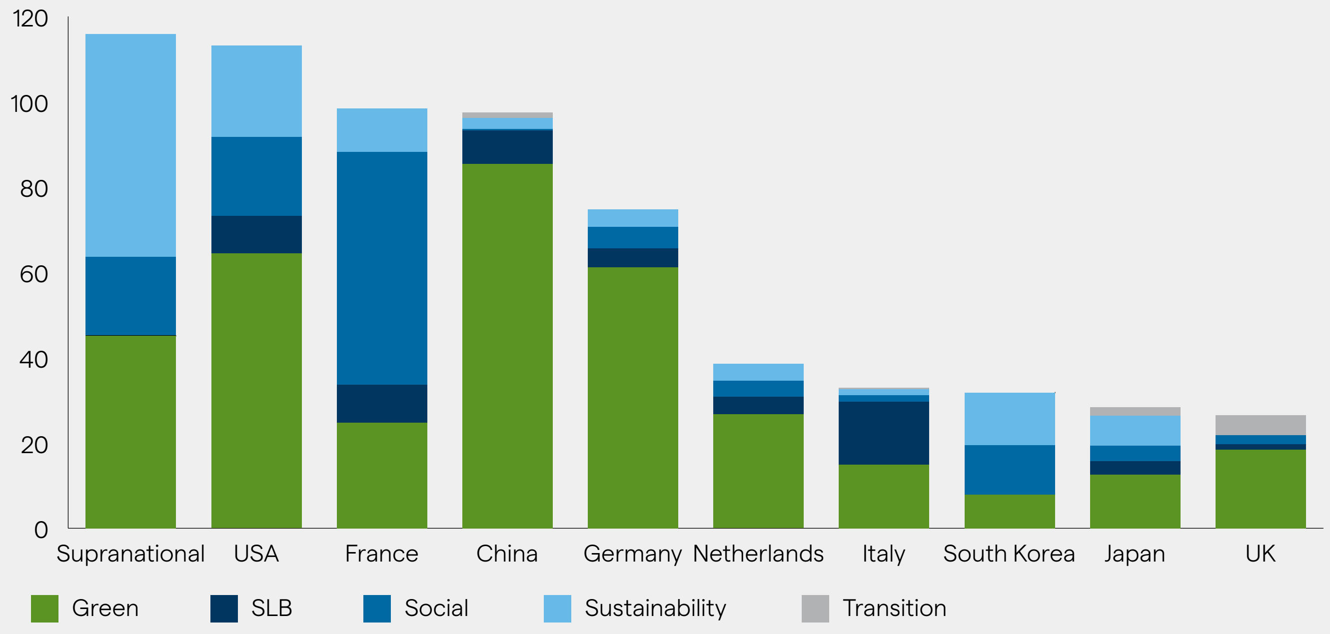
[2] World Bank: 'Save' SLBs with stricter standards and scrutiny :: Environmental Finance (environmental-finance.com)
[3] SLB quality on the up in 2023, finds Climate Bonds Initiative (responsible-investor.com)
[4] 18% of sustainability-linked bonds 'pose greenwashing risk' :: Environmental Finance (environmental-finance.com)

Sustainable Debt Issued ($bn) by Instrument Type



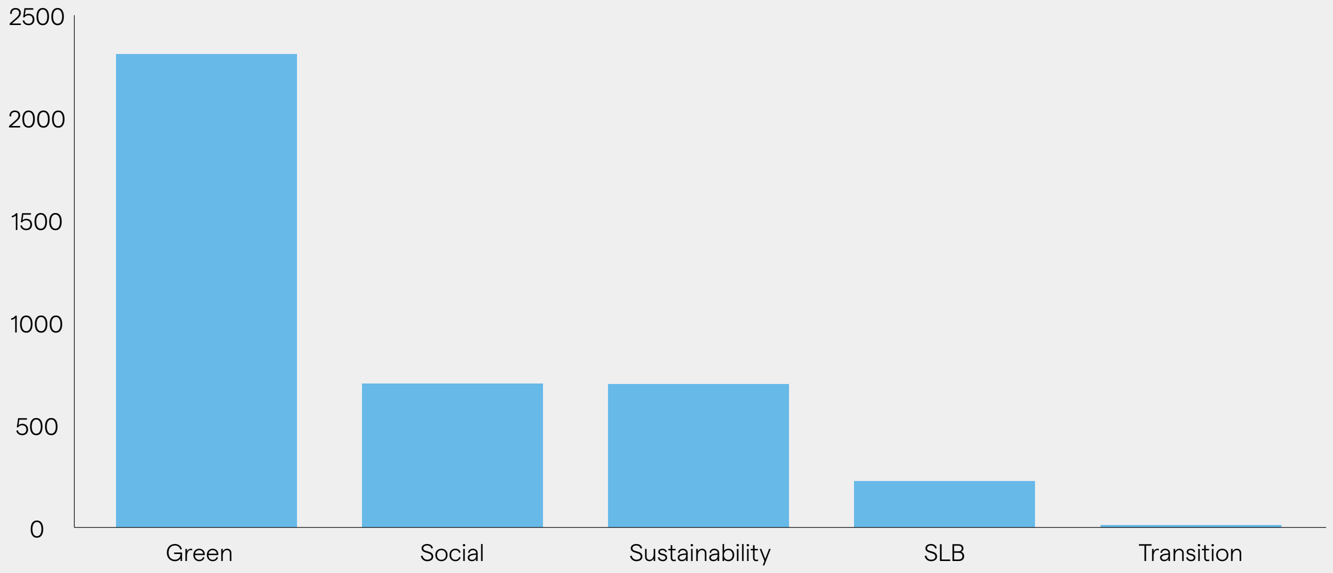
Source: Bloomberg Finance L.P. December 31, 2023

The USA was the largest country source of green, social and sustainable debt in 2022



Source: Climate Bonds Initiative – Sustainable Debt Market, Summary Q1 2023

Green bonds dominate – cumulative volumes of sustainable debt financing, Q1 2023



Source: Climate Bonds Initiative – Sustainable Debt Market, Summary Q1 2023

Buyers:

Many commercial and investment banks are keen to make well-structured sustainable and green loans, as these enable them to meet their own sustainable finance targets. Purchasers of bonds are commonly institutional investors, often with either an ESG mandate or an environmental focus. In some cases, governments have been buyers, while some issuances have been open to retail investors.

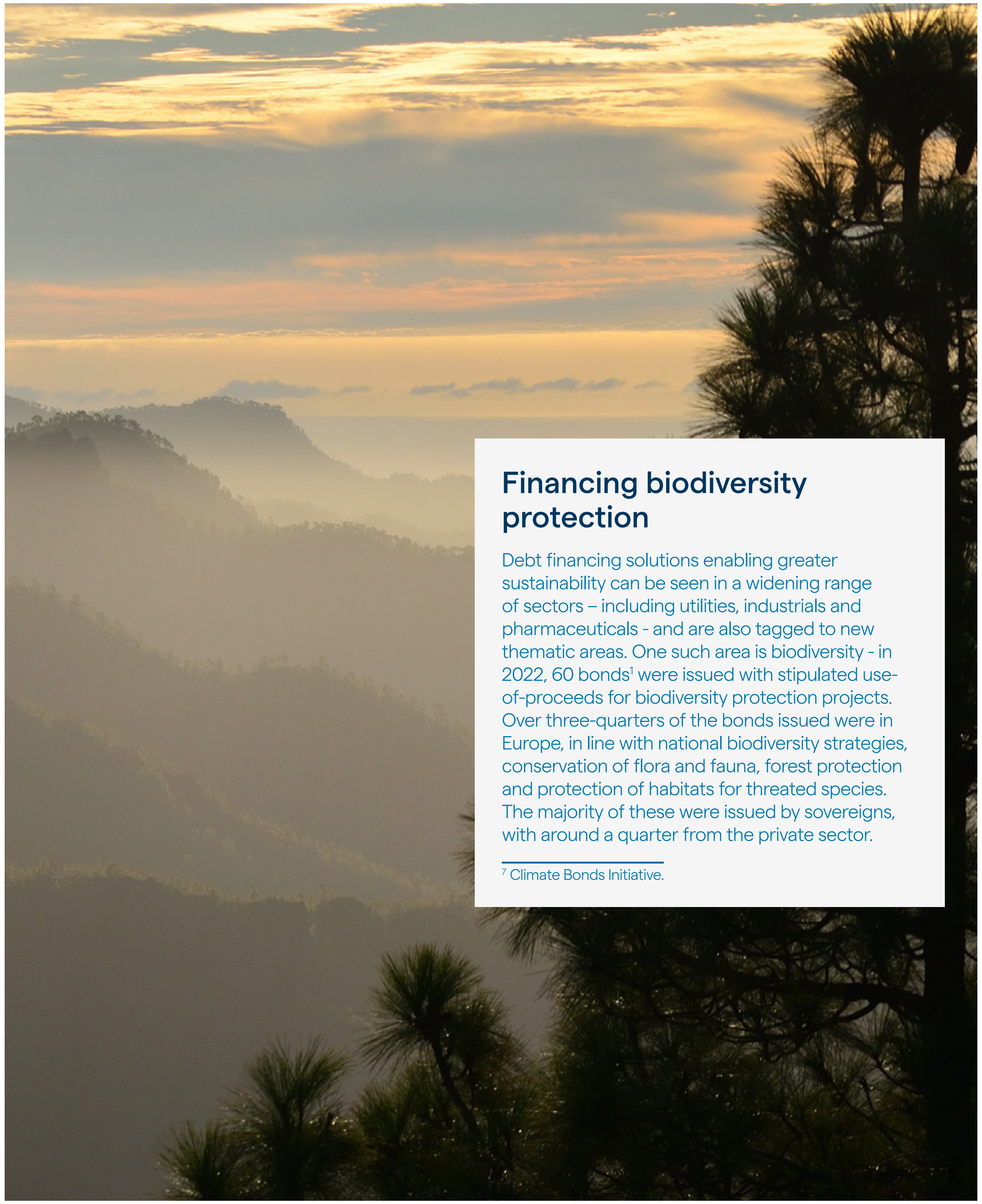
Metrics:

These can vary, though greenhouse-gas emissions related targets are common. Alignment with specific industry impacts is seen as important. In the words of ratings agency, Morningstar-Sustainalytics: "The KPIs selected and their relevance to your industry will significantly impact the credibility of the sustainability-linked frameworks. A KPI must reflect material aspects of your company's operations within the boundaries of ESG factors. For example, a transportation company with heavy use of fossil fuels in their operations might want to include carbon emissions as a KPI, while in the case of a company focused on healthcare, social topics such as affordability might be seen as more relevant." [4]

"China attaches great importance to the role of the financial sector in green and low-carbon development. ...We have fostered a multi-layered products and market system that covers green loans, green bonds, green insurance, green funds, green trust and carbon finance products."

Ambassador Zheng Zeguang, from a speech at the Chinese Embassy in London, 22 April 2022[5]

[5] Sustainability-Linked Financial Instruments: Creating Targets and Measuring Your Company's Performance (sustainalytics.com)
[6] Ambassador Zheng Zeguang attends City Week 2022 and delivered a keynote speech (fmprc.gov.cn)



Financing biodiversity protection

Debt financing solutions enabling greater sustainability can be seen in a widening range of sectors – including utilities, industrials and pharmaceuticals - and are also tagged to new thematic areas. One such area is biodiversity - in 2022, 60 bonds[1] were issued with stipulated use-of-proceeds for biodiversity protection projects. Over three-quarters of the bonds issued were in Europe, in line with national biodiversity strategies, conservation of flora and fauna, forest protection and protection of habitats for threated species. The majority of these were issued by sovereigns, with around a quarter from the private sector.

[7] Climate Bonds Initiative.

Shaping the landscape
Supporting institutions and sector regulation

Building credibility in a new asset sub-class is essential to its growth. Regulation can help. The introduction of regulation for the burgeoning sustainable finance industry is increasing, as it is in other areas of sustainable investing and corporate sustainability.

The European Union's policy framework is supportive of sustainable debt financing, including via the following measures:

Green Deal - a comprehensive policy framework aimed at transforming the EU into a sustainable and climate-neutral economy. This package of measures acknowledges the need to mobilise capital flows to achieve its targets, which include the growth of the green bond market.

EU Taxonomy - establishes a framework for classifying environmentally sustainable economic activities. Investors can work with a common language to ensure that financial products, including bonds, are justifiably labelled as green or sustainable.

Sustainable Finance Disclosure Regulation - aims to increase transparency and consistency in sustainable investment. Requires market participants, including bond issuers, to disclose information about how ESG factors are integrated into investment strategies and products.

EU Green Bond Standard – this is under development and aims to set out criteria for achieving categorisation as a green bond, via guidelines for issuers to follow.

Meanwhile, non-governmenal organisations ("NGOs") have been highly influential. The *Climate Bonds Initiative (CBI)* was early to the table, established to mobilise bond markets to finance climate solutions and plays a significant role in promoting the development of the global market. The CBI collaborates with governments, financial institutions, and other stakeholders to create an enabling environment for sustainable finance. Its Climate Bonds Standard provides a framework for labelling bonds for projects with positive environmental impacts. This has helped to build credibility and transparency in the green bond market.

CERES, the US NGO which works with a wide array of financial markets participants to develop and further sustainability agendas, has also been influential in developing the North American sustainable credit markets.

"Green bonds are flourishing, but there is potential for more. Today we also propose a European Green Bond Standard. It will set a "gold standard" for how investors can recognise bonds representing real green investments, to help them make the right choice."

Ursula von der Leyen, President of the European Union, Twitter, 6 July 2021

The *International Capital Market Association (ICMA)* has developed the Climate Transition Finance Handbook. This is designed to act as guidance for issuers seeking to utilise green bonds, sustainability bonds or sustainability-linked bonds towards the achievement of their climate transition strategy. ICMA has also published the Sustainability-Linked Bond Principles, guidelines that recommend structuring features, disclosure and reporting, as well as the Social Bond Principles, which seek to support issuers in financing socially sound and sustainable projects that achieve greater social benefits.

Sustainable finance mentions in corporate disclosures

[8] Datamaran. Corporate disclosures in Europe in Triton's four sectors.

Triton and sustainable finance

Triton believes that the sustainable finance asset class can offer opportunities to achieve better cost-of-capital for business activities. This now forms a central part of our overall sustainability strategy.

Sustainability-linked loans at Triton funds

Demonstrating improvements in operational ESG metrics can be beneficial to the cost-of-capital. One way in which this can manifest is through lending facilities, which offer lower rates of borrowing where ESG targets are met each year.

In 2021, Triton announced a sustainability-linked loan facility for the TV Fund and the TSM II Fund, where successful performance measured against five ratcheting ESG metrics, and independently verified, will trigger preferential terms. This loan facility has been syndicated across seven banks, and forms a template for pursuing such credit facilities in future, subject to market conditions.

The five ESG metrics attached to Triton's sustainability-linked loans are:

1. *% of portfolio companies submitting to the Science-based targets initiative*
2. *% PCs with waste management programme*
3. *% PCs with water management programme*
4. *% PCs conducting ESG board review at least biannually*
5. *All new portfolio companies to have Board-approved ESG programme within 12 months of acquisition.*

An increasing proportion of portfolio companies are required to meet metrics 1-4 for the board to hit the lending criteria each year. Status is measured and verified on an annual basis by an independent company – Environmental Resources Management (ERM).

To date, the targets attached to Triton's sustainability-linked loans have been met, resulting in multi-million euro savings to the fund and our investor clients. There is no guarantee that future investments of Triton will be able to meet these criteria and the savings are not guaranteed.

Sustainable financing in the Triton portfolio

Kährs Group

The Kährs Group is a leading manufacturer of wood and resilient flooring for private, public and commercial use, with sales in more than 70 countries. The company has developed an ambitious climate strategy and in 2021, committed to reaching net zero by 2040. In the same year, Kährs issued a SEK 1,450M sustainability-linked bond. The company set three KPIs with related targets:

- CO_2e emissions from the Group's own operation and purchased energy (scope 1 and 2)
- Setting a Science Based Target ("SBT") for CO_2e emission reduction in line with 1.5-degree scenario
- Sustainably sourced wood as a percentage of the Group's total purchased wood raw material

The bond is listed on the Frankfurt Open Markets and Nasdaq Stockholm. Reporting on the KPIs are delivered on an annual basis followed by a third-party verification process.

"We were delighted to support Kährs in issuing their sustainability bond, an important facet in the company's financing strategy as it became the first Triton portfolio company to directly tap sustainable credit markets."

Christoffer Marköö
Investment professional

Glamox

Glamox is a Norwegian industrial group that develops, manufactures and distributes professional lighting solutions for buildings, marine and offshore markets. Glamox is committed to reaching net zero carbon emissions in their operations by 2030. The company issued a NOK 1,350M sustainability-linked bond in early 2023 linked to energy usage of lighting. Glamox set three KPIs with related targets:

- Absolute Scope 1 and 2 GHG emissions in metric tonnes
- Share of turnover from connected lighting
- Non-hazardous waste to landfill in metric tonnes

The bond is listed on the Oslo Børs. Glamox will annually publish a sustainability-linked progress report with updated information about its sustainability strategy and the performance of the KPIs. This will be assessed by a third-party verifier.

Glamox also has sustainability-linked bank financing, with similar KPIs.

"Glamox is committed to reaching Net Zero carbon emissions in their operations by 2030."

Joachim Espen
Investment professional

Interview

Sustainable finance - The view from the market



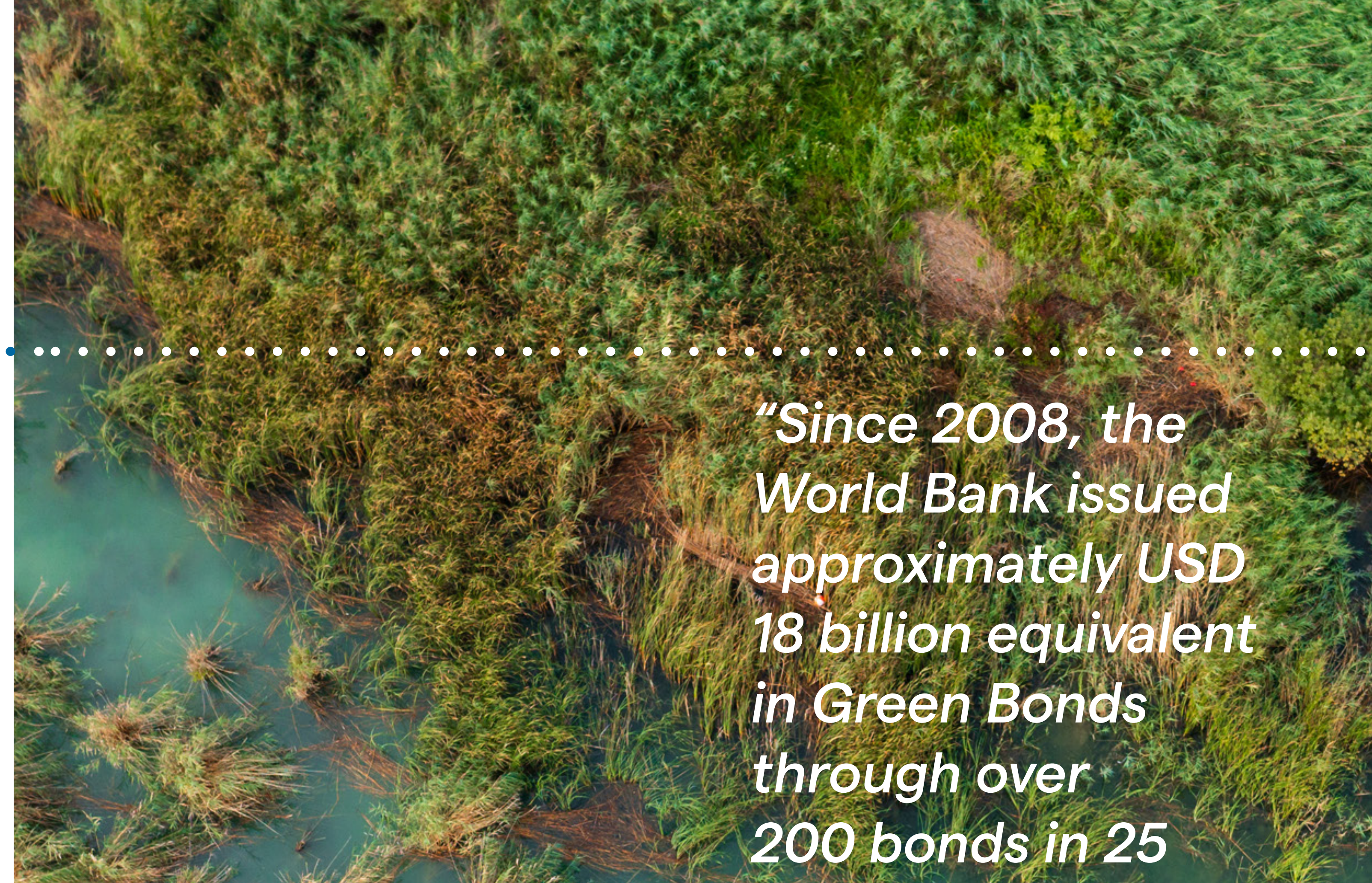

Onur Durmus
Lead Sustainable Operations at ERM

Yulia Manyutina
Head of Climate & ESG, RBS International

Mukul Sharma
Finance Director at Triton Partners

Ashim Paun
Head of Sustainable Investing at Triton Partners

Ashim spoke with Yulia, Onur and Mukul on the development of the sustainable finance market




"Since 2008, the World Bank issued approximately USD 18 billion equivalent in Green Bonds through over 200 bonds in 25 currencies"

World Bank

AP Why do we need sustainable finance?

MS For companies with solutions to sustainability challenges and which operate in ways consistent with good ESG performance, sustainable finance solutions can mean that capital can be raised at a preferential rate. As well as encouraging good operational ESG performance, companies with strong sustainability credentials can command a valuation premium, ultimately benefiting them and our investors. This is a real-world financial benefit from achieving greater sustainability.

Many lenders and fixed income investors are also keen on this new asset class, as it helps them to allocate capital in ways which increasingly meet their own ambitions and targets around sustainability.

AP There seems to be demand for sustainable financing solutions, both from borrowers and lenders. How is the market evolving?

YM The climate emergency underlies recent, rapid growth in the sustainable finance market. However, the market is yet to reach maturity, and the macro environment and multiple economic shocks of the last 24 months have brought uncertainty. Yet despite short-term challenges, we expect to see increasing demand for sustainable finance from borrowers and lenders.

AP Can all companies raise debt finance through such instruments?

OD I believe it is difficult for companies having inherently unsustainable business models like those sectors in exclusion lists of investors, such as thermal coal mining and tobacco. But all in all I think there should always be instruments available to finance the transformation.

AP What are the benefits to issuers of raising finance through green, social, sustainable and transition bonds or loans?

YM Issuers opting for green, social, sustainable, and transition bonds or loans gain several advantages beyond traditional financing routes. Firstly, an increasingly growing base of investors are interested in ESG, which provides growing market demand. Second, issuing these instruments can also help issuers to achieve their own sustainability objectives. Third, strict regulatory and reporting requirements help to foster transparency and innovation at issuers and in the wider industry.

MS At Triton, we believe that sustainable finance can offer opportunities beyond simply better cost-of-capital. Raising such debt finance also gives stakeholders a point of external assurance that sustainability metrics have been set out, in many cases met and independently verified within the context of a lenders risk framework. This can be as powerful a message on a company's sustainability credentials as a third party ESG rating.

AP With the increasing focus on sustainability for companies operating in all sectors, do you think the spread for sustainable vs 'vanilla' traditional capital raises will widen?

YM Increasing emphasis on ESG and climate will likely continue to drive the demand for sustainable capital in the longer term. The spread between sustainable and traditional capital may also be narrowed by regulatory, political, and financial factors. We believe short-term noise will impact the overall trajectory, and the spread will continue to reflect our perception of the long-term value of ESG.

MS Certainly the long term trend is towards a greater premium being awarded to companies, projects and activities which mitigate ESG risks and embed sustainability in their value creation thesis by meeting global challenges. So the answer is yes, probably, and in some markets at certain times.

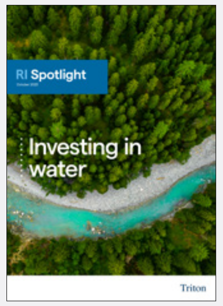
AP What is the value of third party assurance in the sustainable finance market?

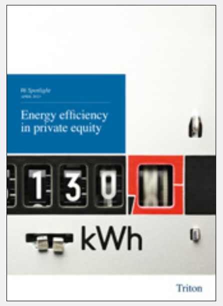
OD Some form of an external review like assurance or second-party opinion is critical to minimising the risk of greenwashing and enhancing investor protection in the sustainable finance market. These external reviews however have a cost impact on transactions. In general it is my expectation that the burden of assurance should be more with the real economy than financial market players.

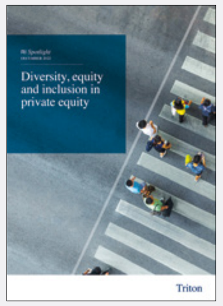
AP What are the most common metrics associated with sustainable bonds? And for green bonds?

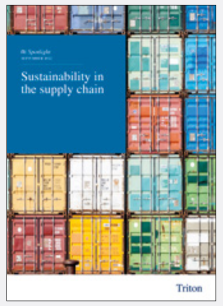
OD We mostly see metrics around carbon and climate impact reduction, energy efficiency, pollution prevention and control. With the influence of the EU Green Deal and the EU Green Bond Standard we will be seeing also the EU Taxonomy as one of the main indicators. Overall, we believe this is a market which will continue to grow, supporting the sustainability ambitions of companies from around the world.

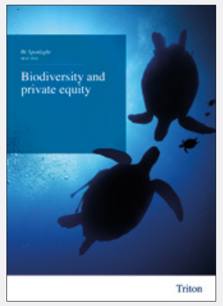
Spotlights

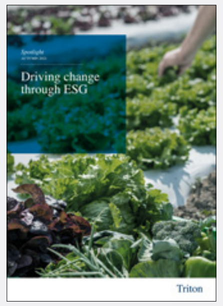












Reponsible Investment reports

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