2022 EDITION

# Natural capital

## strategy

sycomore
am

*"Our purpose is to develop an economy that is more sustainable and more inclusive and to generate positive impacts for our stakeholders. Our mission: make investment more human."*

Core to our mission is the goal to provide our clients with meaningful investments by creating sustainable and shared value. Sycomore AM has the long-standing belief that companies addressing major social, societal, or environmental needs are the companies of the future, and that created value must be shared to ensure sustainable performances.

Environmental issues are fully embedded within our mission. **We consider nature as the very foundation for the resilience of the living world and of mankind as a species and as a civilization. The Environment encompasses all commons within the biosphere, home to living beings and organisms, and provider of ecosystem services.** This is our definition of natural capital, which benefits all living forms and will continue to benefit future generations of living creatures.

As an investor, our environmental impacts are mainly indirect and caused by the businesses we finance. Given the current environmental systemic crisis, identifying the solutions that exist for promoting an economy that is more respectful of the living world and limiting our portfolios' exposure to assets carrying environmental risks, is central to our mission as a responsible investor.

Our Natural Capital strategy is guided by the first two statutory objectives of our mission:

1. **To measure and improve the environmental and societal contribution of our investments** while providing transparency and a learning experience for our clients
2. **To continue with the development of our socially responsible fund range**, aiming to deliver positive impacts combining purpose and performance

## Our goal is therefore to increase the contribution of our investments to the environmental transition by 2030.

Three levers are used to achieve this goal:

**AVOID – Select investments that reduce our exposure to environmental risks**

**ALLOCATE – Strengthen investments in companies providing solutions enabling the environmental transition through their products and services**

**ENGAGE – Help companies improve how they manage their impacts and dependencies on natural capital, with a focus on transitioning companies**

**The purpose of this document is to provide details on Sycomore AM's strategy for promoting the living world in its investment choices. We first describe the scientific, institutional, and societal frameworks within which we operate** –highlighting the importance of considering mutual dependencies when selecting the companies we wish to finance and support. We then follow the key items recommended by the TNFD (Task Force Nature-related Financial Disclosures), inspired by the TCFD (Task Force on Climate-related Financial Disclosures), and present: our strategy, how me manage environmental risks, the metrics, and objectives we have set, and our governance on environmental issues. Our approach when addressing environmental issues is the following:

- **Multi-issues: covering biodiversity, natural resources, and climate change considerations**
- **Comprehensive: based on a lifecycle analyses**
- **Scientific: based on recognized scientific frameworks**
- **Integrated: embedded in the fundamental analysis of all companies within our investment universe**
- **Collaborative: conducted through the participation of other stakeholders, as much for developing indicators as for engaging with companies**
- **Transparent: both on our environmental measurement methodologies and on our results**

**Our Natural Capital strategy is core to our investment strategy and development. As a public document, it provides a framework for the dialogue held with all our stakeholders: employees, suppliers, institutions, NGOs, shareholders, clients and companies within our investment universe.**

Finally, we share our know-how and convictions with our entire ecosystem, including regulatory authorities and peers, as we take part in think tanks on the integration of environmental issues within the financial sector, and students when we give talks in schools or universities or offer work opportunities.

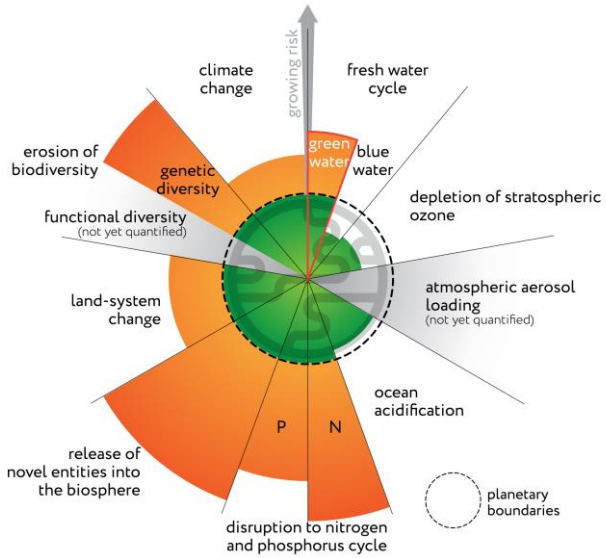
# Contents

# 1 Frameworks

## 1-1 Scientific framework

The scientific framework adopted by Sycomore AM is founded upon:

- **The Report from the Club of Rome**[1], which demonstrates the physical impossibility of infinite growth in a finite world; the work has been updated several times since its first publication in 1972;
- **The Millennium Ecosystem Assessment**[2], based on research conducted between 2001 and 2005, reaching the conclusion that in fifty years, humankind has generated changes to the ecosystem that are faster and more intensive than over any other comparable period in the history of humanity, for the most part to satisfy demand for fast growth in terms of food supply, fresh water, wood, fiber, and energy;
- **Research work on the Planetary Boundaries**, published in 2009, then updated in 2015 and 2022[3]. Six of the nine boundaries have now been crossed:




- Work conducted by the **Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES)**, created in 2012;

### IPBES

In its Global Assessment Report on Biodiversity and Ecosystem Services published in 2019[4], the IPBES identified the **five directs drivers for biodiversity loss** as being:

1. **Land use change**, including the conversion of land cover (for example through deforestation);
2. **Climate change**;
3. **Pollution**;
4. The use and **exploitation of natural resources**;
5. **Invasive non-native species**.

- Independent comparative environmental studies published by researchers, public institutions or NGOs;
- The work conducted by the **Intergovernmental Panel on Climate Change** (IPCC)[5] created in 1988, and notably the panel's most recent publications (see following page).

[1] *The limits to growth*, D. Meadows, J.Randers and B.Williams W. III, 1972 [access]
[2] Executive Summaries, Millenium Ecosystem Assessment
[3] Research conducted by the Stockholm Resilience Centre on the planetary boundaries which provides details on two boundaries crossed in 2022, the fresh water cycle (or green water) and chemical pollutants novel (or new entities that have entered the biosphere)
[4] Work conducted by the IPBES and notably IPBES (2019): Summary for policymakers of the global assessment report on biodiversity and ecosystem services [access]
[5] IPCC publications [access]

## Climate change scenarios

Research conducted by the **IPCC** has led to the development of several climate change scenarios based on emissions and greenhouse gas concentration pathways, resulting in probabilities for global temperature rises:

- The **4 Representative Concentration Pathways (RCPs)** contained in the 5th report of 2014, named after the human induced radiative forcing in 2100 in W/m²: RCP 2.6, 4.5, 6.0 and 8.5[6];
- The **5 Shared Socioeconomic Pathways (SSPs)** from the 6th report of 2021, from SSP1-1.9 (*Sustainability, Taking the Green Road*) to SSP5-8.5 (*Fossil-fueled Development, Taking the Highway*)[7].

The IPCC also presented four normative scenarios in its *Special Report on Global Warming of 1.5°C* (SR-1.5, 2018)[8]. Each one of these (from P1 to P4) offers a different decarbonization strategy aimed at limiting the average rise in temperature to 1.5°C by 2100 compared to pre-industrial level.

Similarly, the **International Energy Agency** (IEA) has worked on scenarios examining various pathways according to different technology projections in the field of energy[9]. In 2021, the French Environmental Agency, **ADEME,** unveiled 4 typical scenarios, with each deliberately offering contrasting economic, technical, and societal options to achieve carbon neutrality in France by 2050[10].

This prospective work helps us anticipate what the world will look like in 2050, thereby enabling us to act. The use of a "benchmark" climate change scenario is recommended to guide investor action and help us measure the climate risks associated with our investments.

In this respect, as an asset management firm, we use the framework provided by the *Science-Based Target Initative*[11] (SBTi). **Our +1.5°C target received official validation in 2022** and we have incorporated this approach into our "climate toolkit" for the analysis of our investments. Finally, while these scenarios provide a useful framework for assessing the potential shift in the technology mix within some industries – such as the production of electricity, cement, steel, or automobiles which account for a small part of the real economy, they remain difficult to use as a guide for our investment strategies.

[6] Executive Summary of the 2014 report on Climate Change [access]
[7] Three AR6 reports [access] and analysis "Where do the five new IPCC scenarios come from?", C. VAILLES, I4CE [access]
[8] Summary of the IPCC special report on the consequences of a 1.5°C rise in global temperatures [access]
[9] Scenario trajectories and temperature outcomes – World Energy Outlook 2021 – Analysis - IEA [access]
[10] Transition(s) 2050 - Choisir maintenant, agir pour le climat – ADEME, 2021 [access]

## Neutrality and compensation

The concept of carbon neutral or "net zero", frequently used when referring to climate change or carbon-related issues, has no common definition and comes with many limitations. We follow the 10 principles of the Net Zero Initiative as well as the recommendations issued by the ADEME on carbon neutrality[12]. We believe that:

- A company cannot be carbon neutral; it can only contribute towards a worldwide carbon neutral goal;
- The funding of low-carbon projects outside of a company's value chain cannot offset the latter's operational emissions by "cancelling" them out in a carbon accounting process.

As a result, we do not use the concept of carbon neutrality in our role as an asset manager and do not rely on compensation, as we prefer a tangible and immediate sharing of the financial value created with our stakeholders.

Consistent with this mindset, we fund the Sycomore Foundation and joined the 1% for the Planet in 2022 for our Eco Solutions fund range – which now allocates 1% of its net turnover to charities or organisations approved by the association.

[11] The SBTi initiative was launched in June 2015. This is a joint project run by the Carbon Disclosure Project (CDP), the UN Global Compact, the World Resources Institute (WRI) and World Wildlife Fund (WWF). For more information, please refer to the Foundations of Science-based Target Setting, 2019 [access]
[12] Framework for the Net Zero Initiative [access] and ADEME viewpoint on carbon neutrality [access]

# Frameworks

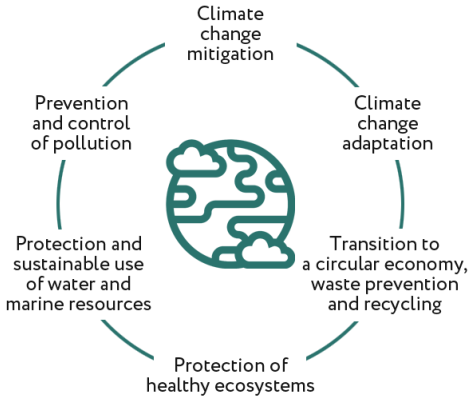
## 1-2 Institutional framework

This science-based framework is enhanced with institutional frameworks with foundations in politics, diplomacy, or regulation. In France, the publication of the enforcement decree for **article 29 of the Energy-Climate Law**[13] in 2021 confirmed the country's commitment to supporting sustainable finance, building on article 173-VI of the 2015 law on energy transition for green growth. This complements European law, by enforcing:

- The integration of ESG factors in the management of risk, governance and in the support provided to market players in their transition;
- The definition of a climate alignment strategy based on the temperature targets referred to in the **2015 Paris Agreement**;
- The definition of a biodiversity alignment strategy based on the international biodiversity preservation goals set by the 1992 **Convention on Biological Diversity**, enhanced with the **2010 Aichi targets** and the **Global Biodiversity Framework** adopted in 2022 at the Montreal COP15.

In chronological order, and with no claims to offering exhaustive information, below are the **key frameworks that have structured our approach**:

- In **2015,** the UN adopted **17 Sustainable Development Goals** (SDG). The achievement of several SDGs relies directly on biodiversity and on ecosystem functions and services, notably targets concerning water and sewage, climate action, marine and land life (SDGs 6,13,14,15). Nature also plays an important role in the achievement of SDGs concerning poverty, hunger, health and well-being, and sustainable cities (SDGs 1,2,3,11);
- In **2017**, the **Taskforce on Climate-related Financial Disclosures**[14] (TCFD) issued its recommendations on climate disclosures that companies should make public to help investors make informed financial decisions;
- In **2018,** the European Commission unveiled its **Action Plan for Sustainable Finance**. The cornerstone of this action plan is the European taxonomy, which in 2020, laid down principles for assessing economic activities according to six environmental objectives.




- In **2022**, the **Taskforce on Nature-related Financial Disclosures** (TNFD) offered a first proposal[15] designed to help organisations with developing and providing a management and transparency framework focusing on nature-related risks and opportunities (LEAP process)[16].

The **TNFD**'s definition of nature is the construction of four realms – **Land**, **Ocean**, **Freshwater** and **Atmosphere**. These provide an entry point to understand:

- A company's dependencies on ecosystem services to ensure the effectiveness of its operational processes;
- The impacts of the organisation on environmental assets and ecosystem services, which may be positive or negative.

[13] Application decree for article 29 of law n°2019-1147 of November 8th 2019 relative to energy and the climate [access]
[14] Final report including the 2017 TCFD recommendations [access]

[15] Non-finalised nature-related disclosure and risk management framework nature, TNFD [access]
[16] The TNFD offers a four-step approach: LEAP for Locate, Evaluate, Assess and Prepare. This analysis guides all companies and financial institutions in their assessment of biodiversity and nature-related impacts, dependencies, risks and opportunities.

# Frameworks

## 1-3 Societal framework

In addition to these scientific and institutional frameworks, the general population is particularly eager to see its environmental concerns[17] addressed, thereby creating a societal framework for our action as investors.

This demand is driven by the raising awareness of the damage caused to nature and the services it provides for human activities, with the deployment of a school of thought aimed at questioning our very understanding of what Environment means, as well as our positioning relative to nature[18].

It is also driven by the urgent need for new solutions for the living world, by imagining a **Fair Transition** whereby the changes generated by the environmental transition do not happen at the expense of social justice.

### Environmental transition & fair transition

The environmental transition is defined as: "the need for our economies to ensure their evolution is compatible with the planet's finite resources and the preservation of natural regulation mechanisms that are critical for life, such as the climate and ecosystems. It encompasses the entire process through which the economy will transform to maintain these resources and regulation mechanisms below their critical thresholds for the viability of our societies"[19].

The widely used phrase "**transitioning companies**" therefore refers to companies with business models that must change to account for the ambitions of the environmental transition, for example by committing to controlling their energy costs, by developing environmentally-sound production methods, or revising their product and service offering. This takes on a dynamic and forward-looking dimension that we assess within the Environment pillar of our **SPICE** analysis using the "Trajectory and Alignment" criterion – as explained in more detail in the "Risk Management" section of this document.

Finally, the imperative call for a Fair Transition which features in the preamble to the Paris Agreement of December 2015 also refers to the need to implement an **environmental transition that is socially just, without fostering an increase in inequalities**. For example, on the employment front, the green realignment of the economy implies deep changes for several industries and professional skillsets, as it opens up new markets for the future and will cause some jobs to disappear. This is a key issue for public action, and particularly in our funding and engagement duties with companies in the sectors concerned.

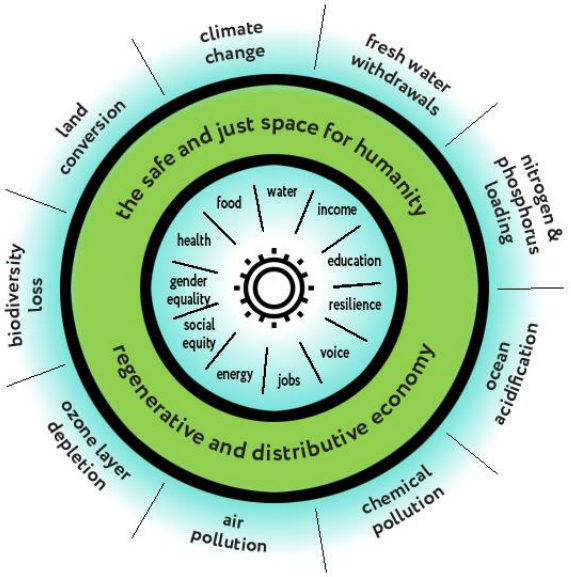
[17] Memo on the new environmental class, by Bruno Latour and Nicolaj Schultz, 2022
[18] *Manières d'être vivant*, by Baptiste Morizot, where he points out that our Western historical reading of nature as being objectified - a pool of free resources independent of humankind - is both erroneous and disabling for building the future.

[19] White paper on the funding of the environmental transition, French Treasury, 2013 [access]

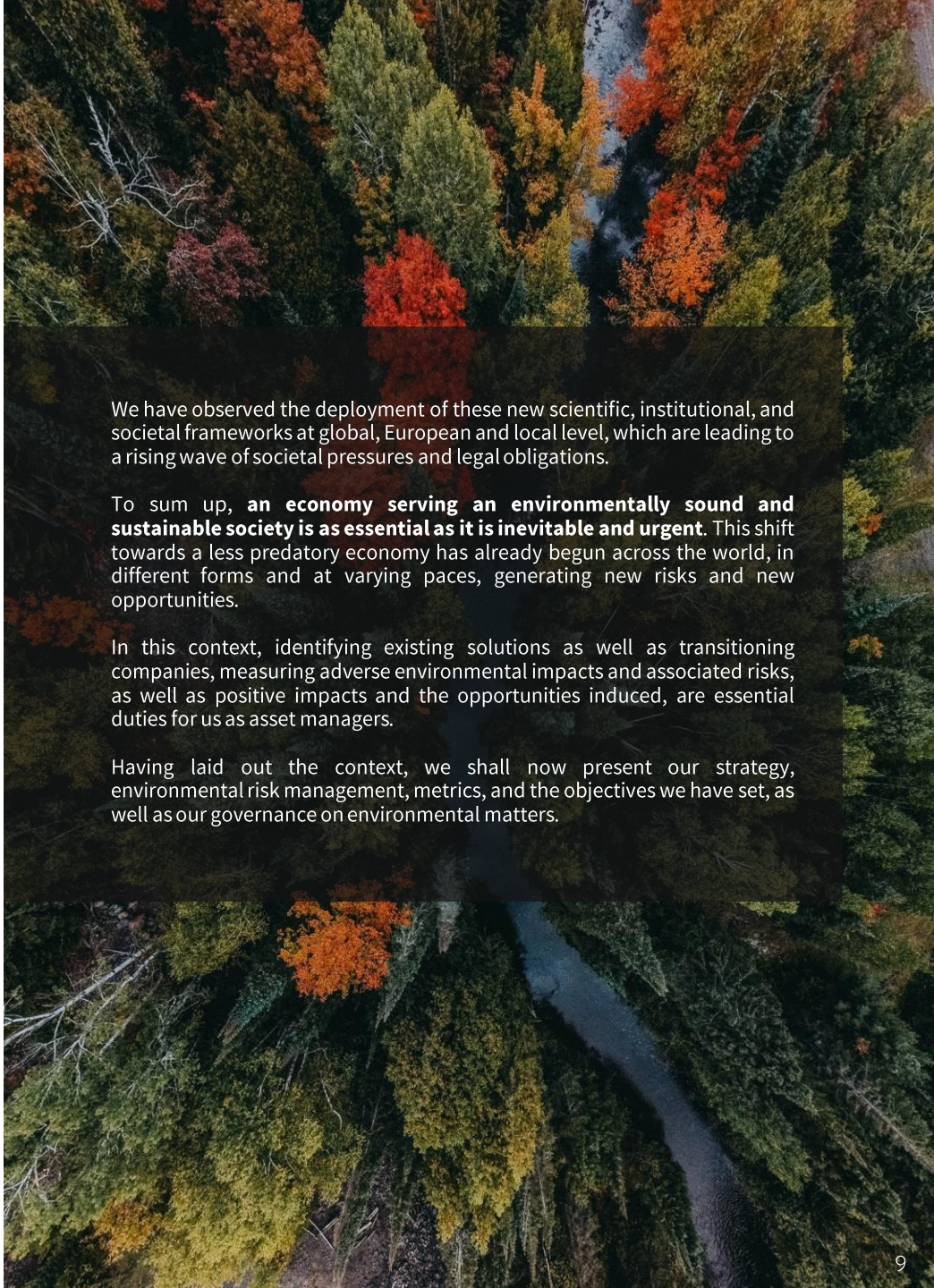
# Frameworks

## 1-3 Societal framework

This concern for social justice is disseminated across the economic world by several schools of thought, including the economist, **Kate Raworth** In her book, The Doughnut Economics (2017) she suggests a list of seven principles that must be modified within the economic field, starting with the goal: we must go beyond GDP growth to steer the “doughnut” within a just and safe place for humanity, between the environmental ceiling (planetary boundaries) and the social floor (social justice).




While this strategy focuses on environmental issues, societal concerns are also core to our mission as a responsible investor: our approach to societal capital and the methodology we use to assess a company’s societal contribution are explained in more detail in our **Societal Capital Strategy**.

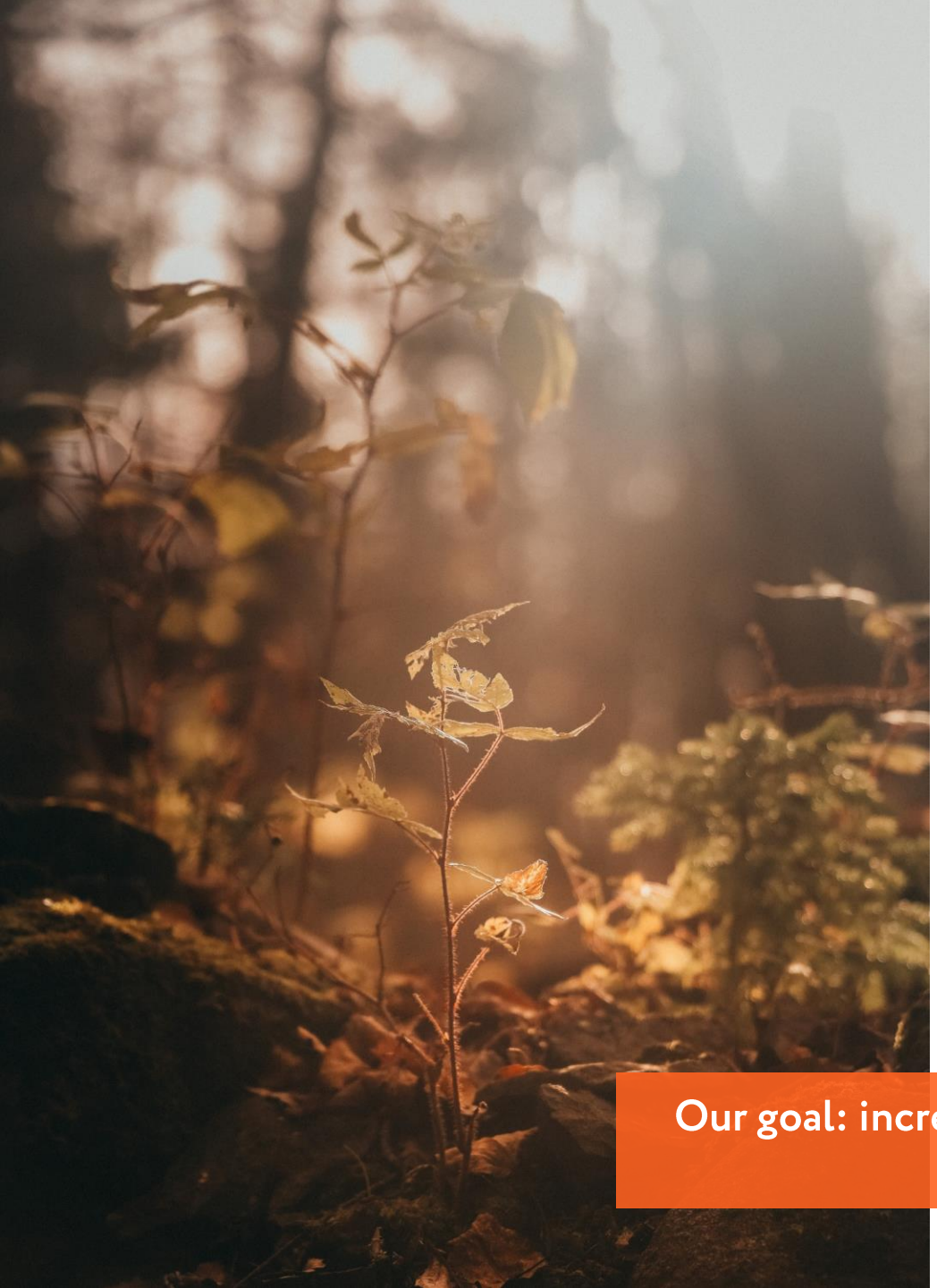


We have observed the deployment of these new scientific, institutional, and societal frameworks at global, European and local level, which are leading to a rising wave of societal pressures and legal obligations.

To sum up, **an economy serving an environmentally sound and sustainable society is as essential as it is inevitable and urgent**. This shift towards a less predatory economy has already begun across the world, in different forms and at varying paces, generating new risks and new opportunities.

In this context, identifying existing solutions as well as transitioning companies, measuring adverse environmental impacts and associated risks, as well as positive impacts and the opportunities induced, are essential duties for us as asset managers.

Having laid out the context, we shall now present our strategy, environmental risk management, metrics, and the objectives we have set, as well as our governance on environmental matters.





# 2 Our **strategy**

## **2-1** Environmental responsibility and double materiality: our objective

Our responsibility with respect to the environment concerns the impacts of our activity as a company, including our offices, the purchase of services, products and energy, our business travel, our employee savings plans and the impacts of our investments. Looking at magnitude, the latter accounts for the largest impacts associated with our profession as an asset manager and will be the focus of this strategy.

Environment-related issues touch upon our investment activities at two levels, and according to the principle of double materiality:

**Our investee companies are facing new risks associated with environmental disruptions**: transition risk - for instance the impact of new regulation being enforced in the carbon market, and physical risks - that can arise in the wake of a natural disaster affecting a corporate asset, or more fundamentally, its dependence relative to an ecosystem service that may no longer be provided;

**Conversely, portfolio management also has an impact on the environment**, driven for example by our decision to finance or refuse to finance fossil fuel projects, or to favour companies offering products and services that support the environmental transition.

Our strategy aims to address both dimensions. It is structured around one goal, a multi-dimensional approach, and three key action areas to help achieve this goal.

**Our goal: increase the contribution of our investments to the environmental transition by 2030**

# Our **strategy**

## **2-2** A multi-dimensional approach to the environment

Our strategy is founded upon a **multi-dimensional approach** which covers key environmental impacts, including **climate change**, **biodiversity**, and **resources**, listed in no order of importance.

The concomitant integration of both climate and biodiversity dimensions within our strategy (details provided in the "Risk management" and "Indicators and objectives" sections) enables us to address the link between climate and nature (the climate-nature nexus) highlighted by the TNFD. This has been central to our environmental strategy ever since its first publication in 2015 and established based on the following facts:

- Impacts are frequently **intertwined**. For example, deforestation and land degradation will amplify climate change, and vice-versa;
- Single polluting substances often have **multiple impacts**. For example, sulfur dioxide ($SO_2$) is a colourless gas that is toxic when breathed and also causes the acidification of rains;
- Research is increasingly highlighting the **systemic dimension** of different forms of environmental damage, as the planetary boundaries, the use of land, the cryosphere, oceans and climate are all connected and interdependent;
- Every solution or response to an isolated environment-related issue is **never without externalities** and the outcomes can imply shifting pollution from one area to another. As an illustration, diesel vehicles have a smaller effect on climate change, as they emit 10% to 20% less $CO_2$ per km than a gasoline vehicle. However, they produce more NOx and fine particles, with immediate harmful effects on air quality in urban areas.

Beyond these aspects, our strategy is also grounded in two specific approaches:

- We cover a company's **entire value chain** upstream and downstream, therefore including scope 3 until the final use of the products and services on offer, and incorporating their negative and positive externalities, such as the energy saved, emissions prevented, or tons recycled;
- We also focus on **principal adverse impacts**, mindful of orders of magnitude. We do not claim absolute precision, an impossible task due to the complexity of the issues studied and the lack of transparency/quantification from the companies themselves.

# Our **strategy**

## **2-3** The Net Environmental Contribution (NEC): our environmental compass

As believers in the principle that "if you can't measure it, you can't manage it", we were among of the first founders of the NEC – a multi-issue environmental metric – in 2015. After 4 years of R&D and testing on the deployment of our β version, we have now made the NEC public in its 1.0 version.

We are convinced that faced with the urgent need to take environmental and climate action, **cooperation and transparency are no longer optional, but have become imperative**. We therefore created the NEC Initiative as an independent structure, of which Sycomore AM remains temporarily the main shareholder: an open-source collaborative platform, open to all stakeholders operating within the financial industry – investors, issuers, banks, insurers, data providers, financial service suppliers, institutions, NGOs, academics, and trade organisations. As a mission-led company since its creation in 2021, the NEC Initiative offers a public and free access to its methodology and publications, via **www.nec-initiative.org**.

**The NEC measures the extent to which a business activity contributes to the environmental transition**[20]. The NEC is based on the physical units of pollution generated and/or avoided relative to the physical units of functions provided, such as a kWh of supplied power, a km travelled or a ton produced. The NEC incorporates climate issues, but also other drivers of biodiversity loss. It applies a lifecycle approach by cumulating principal adverse impacts for the environment throughout the value chains. The result is expressed as a single score on a normative scale ranging from -100% to +100%, applicable to all businesses and all asset classes, meaning it can be aggregated at portfolio and index level.

The NEC is structured around 9 impact categories used by lifecycle analysis methodologies. In 2022, research was conducted to work out the correspondence between these impact categories and the other scientific frameworks referred to earlier in this document: the 5 direct drivers of biodiversity loss identified by the IPBES, the 9 planetary boundaries, the 6 environmental goals of the EU Sustainable Finance Action Plan and the 4 realms highlighted by the TNFD. The correspondence table is shown hereafter. This analysis demonstrates that the **NEC covers most known and documented issues – effectively, a climate change, biodiversity, and resources trio**. Note that impact caused by invasive non-native species has remained a blind spot in most existing modelling methodologies and research projects, as much for the NEC as for biodiversity footprints.


[20] The NEC has been referenced as a relative environmental performance metric by two research studies conducted by the WWF in 2019 [access] and 2021 [access], a study by the Institut Louis Bachelier in 2020 [access] and an article published in the Journal of Cleaner Production in 2021 [access]

# Our **strategy**

## **2-3** The Net Environmental Contribution (NEC): our environmental compass

**A four-stage construction methodology**

- 2 modelling stages enabling the classification of activities according to their impacts in absolute terms
- 2 calibration stages leading to a unique NEC (-100% / +100%) in relative terms

Stages 1, 2 and 3 are repeated for each of the 15 functional frameworks.

**1 Identification of main impacts for the environment**

**Materiality analysis**: identification of environmental issues (climate change, water, air, etc.) **which concentrate – throughout their lifecycle – the largest share of the impact** generated by the function or service being analysed (travel, clothing, food, heating, lighting etc).

**2 Definition of environmental performance indicators**

**Indicators (as quantitative as possible) are chosen** to allow for a pertinent comparison of environmental performances **per service provided**. At this stage, activities that are not covered are compared based on their physical impacts expressed in absolute terms.

**3 Calibration of environmental performance indicators**

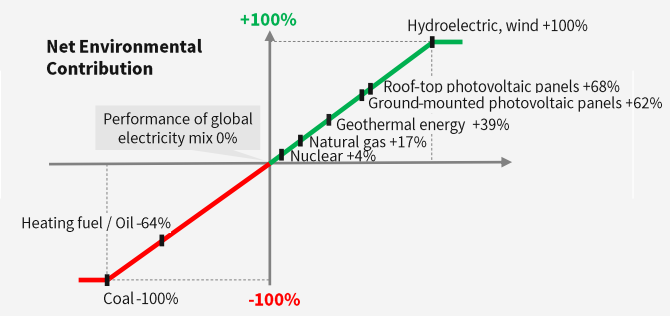
**This ranking is transposed into an absolute impact**, using a relative scale: by setting the reference point at 0% (which corresponds to the average environmental footprint for a given function), and the "eco-solution" (NEC +100%) point on the performance indicator scale.

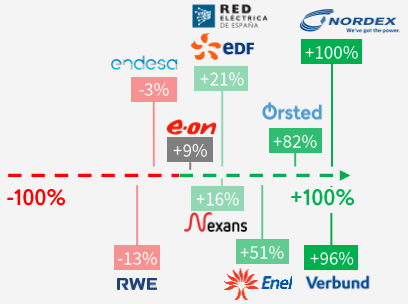
**4 Grading of the 15 functional NEC scales into a single scale**

**Each functional NEC scale is graded** (with three possible levels, reflecting high, moderate, or low intensity impacts) to ensure overall consistency and comparability based on a unique NEC on a scale of -100% to +100%.

### EXAMPLE: THE ELECTRICITY FRAMEWORK

| | | |
|---|---|---|
| 50% | Climate | g $CO_2$e/kWh |
| 25% | Biodiversity | Biodiversity pts/kWh* |
| 25% | Waste | Waste pts/kWh* |




Source: Net Environmental Contribution 1.0 handbook, 2019 [access].
*The Ecoinvent Impact2002+ and "Ecological Scarcity" v.3 indicators, which measure the following impacts caused by electricity production technologies: land usage, aquatic toxicity, acidification and nitrification of terrestrial ecosystems, terrestrial ecotoxicity; and radioactive and non-radioactive waste

# Correspondence table

between environmental issues featured in leading international frameworks and the NEC's underlying impact categories (Net Environmental Contribution)

| Net Environmental Contribution, NEC, since 2018 | Intergovernmental Science-policy Platform on Biodiversity and Ecosystem Services, IPBES, since 2012 | 9 Planetary Boundaries, since 2009 | Taskforce for Nature-related Financial Disclosures, TNFD, since 2021 | | Action Plan for Sustainable Finance, European Union, since 2018 |
|---|---|---|---|---|---|
| **9 environmental issues** | **Main drivers of biodiversity loss, 2019** | **9 boundaries, of which 6 have been crossed (at least partially*) and 1 is non-quantified (n-q), 2022** | **Measurable Impact Drivers, 2022** | **4 realms, 2022** | **The 6 environmental goals of the Green Taxonomy** |
| Climate change | Climate change | Climate change* and ocean acidification | Greenhouse gas emissions | Atmosphere | Climate change mitigation; climate change adaptation |
| Use of energy resources | Overexploitation of resources | Indirect effects on several planetary boundaries | Energy resources | Land, fresh water, and ocean | Climate change mitigation; transition to a circular economy |
| Deterioration of air quality | Pollution | Atmospheric aerosols loading (n-q); Depletion of stratospheric ozone; Release of novel entities into the biosphere* | Air pollutants, excluding GHG | Atmosphere | Pollution prevention and control |
| Use of water | Overexploitation of resources | Fresh water cycle* | Use of fresh water | Fresh water and ocean | Protection and sustainable use of water and marine resources |
| Water pollution | Pollution | Disruption to nitrogen and phosphorus cycle*; Release of novel entities into the biosphere* | Water pollutants | Fresh water and ocean | Protection and sustainable use of water and marine resources; pollution prevention and control |
| Soil pollution | Pollution | Erosion of biodiversity*; Release of novel entities into the biosphere* | Soil pollutants | Land | Protection and restoration of biodiversity and ecosystems; pollution prevention and control |
| Land use (mainly, but also water and marine environments) | Changing use of water, sea and land | Land-system change* and erosion of biodiversity* | Use of land, water and marine ecosystems | Land, fresh water and ocean | Protection and restoration of biodiversity and ecosystems |
| Use of non-energy resources | Overexploitation of resources | Disruption to nitrogen and phosphorus cycle* | Non-energy resources | Land, fresh water and ocean | Transition to a circular economy |
| Waste | Pollution | Release of novel entities into the biosphere* | Terrestrial waste | Land, fresh water and ocean | Transition to a circular economy |
| Not covered: invasive species | Invasive species, and others | Erosion of biodiversity* | Alterations and disruptions to ecosystems | Land, fresh water and ocean | Protection and restoration of biodiversity and ecosystems |

# Beyond the carbon footprint

We have actively supported the development of the NEC since 2015 as **we do not rely on aggregate carbon footprints to guide our investments**. The carbon footprint is used as an indicator in our research, and we track its evolution over time, as well as the carbon reduction goals set by the companies. Nevertheless, dividing known greenhouse gas emissions (GHG) – an absolute carbon footprint – with an economic divider (turnover or enterprise value, for instance) generates economic ratios with biases that are now clearly established.

In this example, "classic" carbon indicators imply a preference for Ferrari and Zalando over Alstom and Veolia, regardless of the GHG emissions produced during the use phase - or downstream scope 3 (80% of GHG emissions from auto manufacturers), or how waste is processed at the end of a product's lifecycle (a major issue for fast-fashion), and other environmental factors.

Importantly, carbon indicators do not allow the observer to appreciate the end usage: to produce new individual cars or locomotives for trains? To produce more clothing or provide water and waste treatment services? In contrast, the NEC - with its lifecycle, multi-issue and function-driven approach - effectively enables us to cover these aspects.

Beyond the fact that these indicators are **structurally blind to all non-carbon issues**, these ratios are also inadequate in enabling us to make investment decisions supporting both the mitigation and adaptation to climate change.

| | Ferrari | zalando | ALSTOM | VEOLIA |
|---|---|---|---|---|
| **Carbon footprint** Tons eq.$CO_2$/year/€M EV | 29 | 90 | 127 | 713 |
| **Carbon intensity** Tons eq.$CO_2$/year/€M sales | 292 | 78 | 173 | 1118 |
| **NEC** | -100% | -27% | +100% | +42% |

Every year since 2015 we make the same observation: within our range, the funds most aligned with the environmental and climate transition are also those displaying the highest weighted average carbon footprints.

The record carbon footprint is held by **Sycomore Europe Eco Solutions**, a Greenfin-certified fund and the strategy best aligned with the environmental transition within our offering. The fund displays the highest NEC and can boast the best climate alignment score according to SB2A: however, the fund's carbon footprint is 20 times higher than the footprint of our Sycomore Sustainable Tech fund. Carbon footprints mostly reflect sector mixes, and their evolution – based on an identical sector mix – tends to be determined chiefly by variations in market fluctuations, aggregate data coverage or data quality.

**This observation was first made in 2015 and has been further substantiated over the years and endorsed by a growing number of investors. It has led us to express deep reservations on the use of average carbon footprints at portfolio level and urged us to rely on the NEC as our compass to navigate the environmental and climate transition.**

Source: greenhouse gas emissions (reference – Kyoto Protocol), scope 1 + scope 2 + upstream scope 3 in tons of $CO_2$ equivalent per year and per €M of company value (= capital + debt); Trucost and Factset data as of 1 December 2022.

# Our **strategy**

## **2-4** Three strategic priorities

### 1 AVOID – Select investments that reduce our exposure to environmental risks

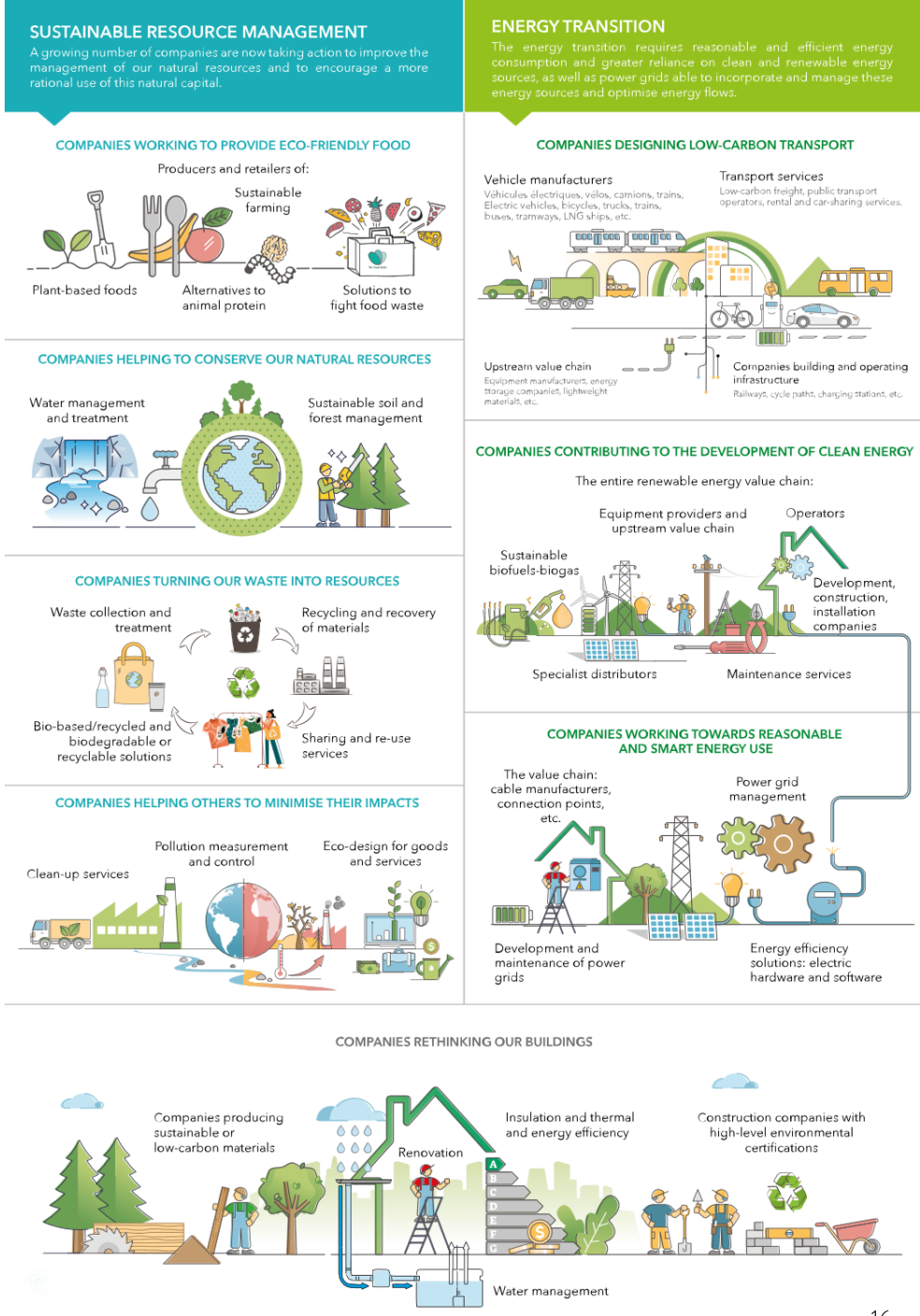
We have developed an **Exclusion Policy** which applies to all assets we manage directly. This policy excludes environmentally controversial companies, notably those involved in fossil energies or the production of chemical pesticides, from our investment universe.

Environment-specific sustainability risks are incorporated into all our investments via the **Environment** pillar of our ESG analysis framework, the SPICE model, as explained below in more detail in the "Risk management" section. This analysis work enables us to select the most mature companies in terms of environmental risk management, and thereby limit our exposure to environment-related risks or obstructions, throughout our investments.

### 2 INVEST – Invest in companies that contribute to the environmental transition through their products and services

To achieve this, we aim to increase the weight of environmentally-sound solutions (eco-solutions) – identified through the NEC – across our investments. We also support transitioning companies by investing in players operating in the most polluting industries that are developing solutions to reduce the environmental impact of their activities.

These environmentally-sound solutions are varied and can be found in many sectors. They are based upon the sustainable management of resources or the environmental transition



# Our **strategy**

## **2-4** Three strategic priorities

### 3 ENGAGE – Help companies improve how they manage their impacts and dependencies on natural capital, with a focus on transitioning companies

Through dialogue and the exercise of our voting rights, we use shareholder engagement as a key lever to support companies and encourage them to embed sustainability into the heart of business strategy. We believe that engagement can drive genuine progress and is a key feature of our additionality as a shareholder.

These engagement initiatives are varied in nature, notably as they focus on company specific issues, but may touch upon:

**Transparency challenges**: we request investee companies to provide a maximal level of transparency on their activities and impacts and encourage the use of all robust frameworks available in open source:

- Disclosure frameworks for quantitative physical indicators and standardised information, such as GRI, SASB, TCFD reports, CDP, taxonomies, etc.
- Use of robust environmental labels certified by independent third parties.
- Publication of lifecycle analysis results for the products and services provided
- Publicly available comparative studies conducted by institutions and NGOs
- Knowledge and systematic disclosure of the limitations associated with the methods used

**Strategic challenges**: we support the definition and adoption of an environmental strategy that is multi-issue, embedded with the evolution of the company's business model, and based on goals that are monitored over time using relevant and quantifiable indicators. It is essential that companies set themselves a clear course of action combined with ambitious and science-based environmental targets.

We therefore encourage companies to measure their alignment with the Paris Agreement and set targets for reducing their absolute greenhouse gas emissions that cover scopes 1, 2 and 3, consistently with a +2°C scenario (min.), and approved, for example, by the Science Based Targets Initiative (SBTi).

**Governance challenges**: we also believe in the company's ability to adapt its governance to ensure these issues are embedded within the decision-making process and to develop the use of tools offering a tangible response, for example, an in-house price for carbon, or the inclusion of an environmental factor relevant to the company's business model in the performance criteria for executive remuneration.

**In 2022, we developed a voting policy on environmental resolutions, and notably on the Say on Climate[21] resolutions that are increasingly frequent at shareholders' meetings. We strive to maintain high standards on these issues and are particularly watchful on the concept of "carbon neutrality"[22].**

[21] Sycomore AM's 2022 Voting Policy, page 20 and following [access]
[22] Details are provided in the above-mentioned voting policy. We abide by the recommendations issued by the Net Zero Initiative framework [access] and with the ADEME's views on the subject [access]

# 3 Risk management

## 3-1 Integration of environment-related sustainability risks within our fundamental analysis

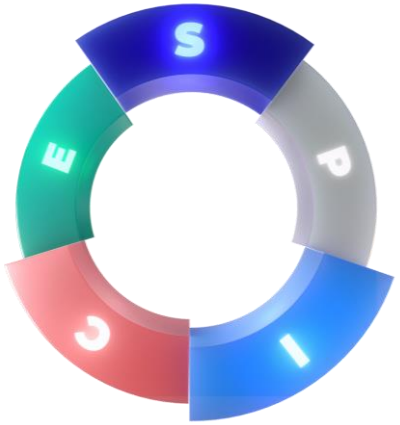
As shown in the table below, our proprietary SPICE[23] approach is structured around the company's five stakeholders and covers the 3 pillars of sustainability, namely the economy, human society, and the environment. Our environmental assessment is carried out through the **E**, **Environment**.

Our approach also strives to be as little anthropocentric as possible, as humankind tends to be considered as one living species among over 10 million others. The direct impacts for humans, and more generally, the anthropocentric and economic viewpoints, are covered by the other modules **S**, **P**, **I** and **C**.

| Pillars | Stakeholders | Types of environmental analysis |
|---|---|---|
| S | **society and sub-contracting/ supply chain** | impacts on human health and quality of life (local communities, users, suppliers, …) |
| P | **staff / employees** | impacts on employees' health and quality of life |
| I | **investors / shareholders governance & business model** | sustainability governance, risks and opportunities associated with the environmental and energy transition |
| C | **clients** | impacts on clients' health and quality of life, reputational risks |
| E | **environment** | impacts on the biosphere, environment-induced risks and opportunities – biodiversity and climate change, including transition risks and physical risks |

Using the example of food: nutritional quality, the impact on public health and safety are covered in the **C** and **S** modules, while the analysis within the **E** module focuses on the impacts caused by the production of raw materials (impacts of farming and livestock breeding on water resources, soil, biodiversity, and the climate), their transformation into food, waste, and packaging. The weight of the **E** score within the SPICE rating ranges between 10% and 20% depending on the company's activities.

As explained in our **ESG Integration and Shareholder Engagement Policy**, the issuer's SPICE rating is a reflection of the sustainability risk (or extra-financial risk) associated with ownership of this issuer (either bonds or equities) and will have a direct and systematic bearing on our decision-making factors (valuation or bond holder risk). The **Environment** pillar enables us to cover most of the wide-ranging physical impacts on the environment (while acknowledging methodology-related limitations) and the resulting risks and opportunities.




[23] S for Sub-contractors and Society, P for People, i.e., employees, I for Investors, C for Clients, and E for Environment.

# Risk management

## 3-2 Evaluation of main environmental risks for all our investments

Since 2015, we have strengthened the integration of climate and biodiversity factors within our SPICE analysis model, both within the **Environment**, pillar, and throughout the research we conduct on governance and business models within the **Investor** pillar. The SPICE analysis model was revised in 2019 to better account for the dynamic dimension of business models and incorporate the TCFD's recommendations without offsetting the natural capital approach promoted by the TNFD, i.e. remaining wider than climate.

**Risk associated with the transition to an environmentally sustainable economy**. This risk accounts for 50% of the **E** and combines 3 types of analysis:

- The **contribution of the business model** to the environmental transition, as measured by the NEC, which reflects the current transition risk if the business model is stable. The NEC tends to be the most reliable information and makes up the largest share of the transition risk rating. It may be enhanced using classification factors, such as the "green" share (according to the European taxonomy or the Greenfin label), or the "brown" share associated with fossil fuels;

- **Trajectory and Alignment** factors, which evaluate the company's short-term (2025) and mid-term (2030) temperature pathways and assesses measurable data on alignment with key international frameworks and the European Union's six environment goals. We specifically evaluate a company's strategic plan, the evolution of its products and services offering, clients, technologies and/or procurement mix, its planned investments and/or divestments, impacting the climate, biodiversity or the resources used. These factors may also be assessed by looking at historical NEC data and enhanced with estimations on a company's alignment with climate change scenarios. Put together, this information brings a dynamic and forward-looking dimension to the transition risk rating;

- The **green differentiation** factor, closely related to eco-design, lifecycle analysis or environmental leadership. This aspect is used to capture intra-sector differentiations – the two former criteria are universal, therefore cross-sector. These peer analysis factors further sharpen our assessment of the transition risk.

**The physical risks caused by the physical consequences of biodiversity loss, climate change and generally speaking, any environmental damage**

These are estimated on a scale of 1 to 5 by incorporating – as much as possible – risks weighing on a company's assets and on its value chain, from its suppliers to its customers.

A growing number of companies provide reports aligned with TCFD disclosure recommendations, which often allow for a better assessment of these risks and how the latter are managed by the company. These risks can be substantial, and their materiality grows in time; they account for 10% of the **E** rating.

The remainder of the **E** rating – which weighs 40% – reflects the company's **accountability and the integration of the environment within its direct scope, via its corporate project, its system for managing environment issues, and the footprint of its activities**. The outcome of this analysis is a rating between 1 and 5 for **Environment**: a higher rating reflects stronger risk management.

# 4 Metrics and targets **for 2030**

## **4-1** Our NEC target for 2030

In 2021 and 2022, we built a quantified pathway to 2030 for our asset management firm and our main funds; we also set new milestones for our climate change and biodiversity policy. These ambitions are consistent with Article 29 of the French law on Energy & Climate, which came into force in 2021, as well as with our approach as a B Corp-certified company since 2020, and with the commitments we made with respect to the Science Based Targets initiative in 2021. This pathway is expressed as a NEC:

**NEC**

**To achieve our objective of increasing the contribution of our investments to the environmental transition, we have set ourselves a NEC target for 2030: +20%**

This target applies to all our investments. In 2021, the weighted NEC of our assets under management stood at +10% (vs. 4% in 2018), while the NEC of leading European indices is 0% (STOXX 600 for example). This goal sets a pathway for the NEC, which is expected to continue improving beyond the track-record from +4% in 2018 to +10% in 2021.

This goal is both demanding and holistic (with a 97% coverage ratio in 2021) as it includes a dual alignment in terms of biodiversity and climate. It will require a continued effort towards improvement both at asset management company and fund levels – a process which began in 2015.

In order to achieve our +20% NEC target, and consistent with the three strategic priorities identified earlier in this document, our strategy involves:

**AVOID – Select investments that reduce our exposure to environmental risks**

- Reducing the share of "eco-obstructions", which we define as activities generating deeply negative NECs for a long period of time, due to the absence of a transition strategy

**ALLOCATE – Strengthen investments in companies providing solutions enabling the environmental transition through their products and services**

- Actively steering the NEC of all funds and mandates according to their respective strategies
- Increasing the percentage of funds displaying NECs well above +20%
- Participating in the funding of transitioning companies

**ENGAGE – Help companies improve how they manage their impacts and dependencies on natural capital, with a focus on transitioning companies**

- Using shareholder engagement to promote best practices and support companies as they adapt their business model and gradually improve their NEC

**With its integrated approach covering both climate change and nature, the NEC is core to our climate and biodiversity toolkit, as described below.**

# Metrics and targets **for 2030**

## **4-2** Our climate toolkit

**Climate alignment assessments provide insights** into Sycomore AM's contribution to global warming targets, notably in relation to the objectives set in the Paris Agreement – including maintaining the global temperature rise to well below 2°C compared to pre-industrial levels by 2100. In addition to the NEC (where the climate component varies between 0% and 100% depending on the activity type and weighs around 50% on average), we use two methods to assess the pathways of our portfolio companies:

- **Science-Based 2°C Alignment (SB2A)**, provides implied temperature rise compared to pre-industrial levels, by 2100, based on the company's past performance on GHG emissions and decarbonization objectives. This methodology was developed by Iceberg Data Lab and determines an ultimate temperature rise (in °C) for each company.

- **Science Based Targets Initiative (SBTi)**, encourages companies to set GHG emission reduction targets over horizons between 2025 and 2050, consistent with scientific recommendations, in compliance with the IPCC's proposals and the Paris Agreement. Through the publication of sector-based methodological frameworks, the SBTi enables companies to set science-based targets (SBT), thereby following temperature rise pathways that are limited to +1.5°C or +2°C and adapted to the specific nature of their activities. Since 2019, the SBTi has introduced a classification for the implied temperature rise associated with approved Scope 1 & 2 objectives, indicating whether these were aligned with 3 different levels: "aligned with 1.5°C", "well below 2°C", or "aligned with 2°C".

These two methodologies are notably based on the Sectorial Decarbonization Approach, which was built from the IEA's ETP 2014 2DS and B2DS scenarios.

The SB2A and SBTi provide two different and interesting types of information, which we use in addition to the NEC to assess our investee companies' climate alignment pathways. We also use the data in our reporting.

### Our SBTi-approved 1.5°C target for 2030

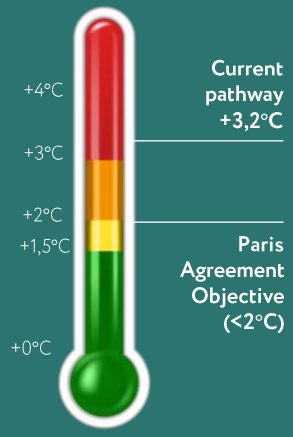
In 2022, we unveiled our climate and biodiversity trajectory[24] and received the SBTi's approval for our 1.5°C pathway, based on our commitments[25] :

**Scope 1 & 2 objectives**

- A 50% reduction in our absolute scopes 1&2 GHG emissions by 2030 compared to 2019
- Continue to purchase electricity that is 100% produced from renewable sources

**Scope 3 objective**

- Bring the percentage of listed stocks and bonds displaying SBTi-approved objectives up to 56% by 2030
- Bring the percentage of listed stocks and bonds displaying 1.5°C SBTi-approved objectives up to 40% by 2030




[24] Our 2021 Responsible Investor Report has incorporated the recommendations issued in Art 29 ECL [access]
[25] Our formal commitment including detailed information on our targets [access]

# Metrics and targets for 2030

## 4-3 Our biodiversity toolkit

**As a complementary tool to the NEC, and to quantify the biodiversity footprint of our investments with an absolute indicator**, we began using the **Corporate Biodiversity Footprint** in 2021. This indicator was developed by I Care and Iceberg Data Lab following a call for expressions of interest issued jointly with three other asset managers[26] to develop a pioneering metric for calculating biodiversity footprints.

The indicator is expressed in km².MSA for Mean Species Abundance. The MSA reflects the average abundance of species and ranges from 0 to 100%, with 100% meaning that the species assemblage is fully intact, and 0% indicating that all original species have disappeared locally. The MSA is calculated based on the abundance of individual species under the influence of a specific biodiversity loss driver, compared to their abundance in a non-disrupted situation - the benchmark natural situation. It is then expressed in terms of km² in order to convert the result into a surface. The result provided by the CBF is expressed in km².MSA of equivalent decline, from 100% to 0% of the initial biodiversity, and tends to be generally negative.

This methodology covers four of the five biodiversity loss drivers listed by the IBPES: climate change, air pollution, water pollution, changing use of land. Invasive non-native species, the fifth driver identified by the IPBES, are not covered.

**The CBF is a biodiversity footprint: each company has a negative footprint value that reflects the surface area kept artificialized due to its activities.**

As active members of this partnership since 2021, we conduct R&D on its use and take part in the steering committee set up for the indicator to monitor methodology changes.

[26] Call for expression of interest issued in 2020 by Sycomore AM, BNP Paribas AM, AXA IM and Mirova [access to press release]

## Scientific limitations of these measures

**None of the tools we use can claim to be fully exhaustive or free of weaknesses**. In particular:

- The NEC's limitations in all NEC 1.0 methodology-related documents have been available on the website of the NEC Initiative since 2019 .
- The current environmental footprint methods only base their models on some of the most frequently found pollutants, and the modelled scope focuses on terrestrial above-ground biodiversity, as impacts on life below-ground and in aquatic (fresh water) and ocean ecosystems are less well documented and even more difficult to model.
- Purely climate-based tools and methods, such as SB2A, SBTi, ACT or carbon indicators structurally ignore non-climate issues, i.e. 8 of the 9 planetary boundaries, or 4 biodiversity loss drivers out of 5.
- Approaches by category (green activity, green taxonomy, brown or sector exclusions) are structurally binary (green/not green, brown/not brown, approved target/no approved target, sector-based or another classification) and cannot capture the diversity of incremental differences (due to the threshold effect) or dynamics (as the categories are fixed).

# 5 Our **governance**

## **5-1** Organisation

The management of environmental issues is an integral part of Sycomore AM's mission governance. The firm's CSR policy is described in our annual corporate responsibility report – Sycoway as a Company – which reviews the direct impacts caused by Sycomore AM's activities – such as office use, business travel, the procurement of goods, services, and energy, but also the indirect impacts generated through our investments.

Our Natural Capital governance is fully integrated within our governance bodies:

- **Director, SRI Research and Strategy**: approves the adoption or evolution of methodologies based on the opinions formulated by the ESG team;
- **The Mission Committee**: created in 2021 and including as its members staff members and qualified, independent experts, the Mission Committee has replaced the Environment Strategy Committee set up in 2015, as well as the Mission and Sustainability Committee formed in 2018. This committee meets at least twice per year to review aspects of the firm's strategy, including the present document, and to monitor the achievement of our mission. At once the custodian of our mission, critical eye and source of inspiration, this committee is a unique venue for debate and discussion where independent members can express their views freely, intuitu personae;
- **The Steering Committee**: reviews the present Natural Capital Strategy, sets and steers the resulting roadmap.

Furthermore, we take part in the governance of the NEC Initiative by attending its supervisory board and mission committee.

## **5-2** Human resources and training

The **human resources allocated to environment-related risks and opportunities** are fully integrated within our organisation:

- ESG specialists within the investment team: 7 people focus specifically on environmental issues, accounting for over 3 full-time positions;
- Within the risk management team, 2 people are environmental data specialists.

In terms of **training on environmental issues**, all new members of the investment team receive training on how to calculate a NEC. This represents around 25 hours of tutorials and is an excellent way to raise awareness on environmental issues for the entire asset management team. Furthermore, sessions are run regularly by in-house or external experts for the benefit of the investment team and other units. As an example, we began running a Climate Fresk session for all staff members in March 2022.

Finally, members of the investment and risk management teams nurture and develop their skills by taking part in many research projects and committees (research and training through the NEC Initiative, expert committee for the Objectif Climat Actions 2 fund, the AMF's Climate and Sustainable Finance Commission, the Greenfin Label Committee, the working sessions of the Partnership for Biodiversity Financial Accountings (PBAF), Finance for Tomorrow initiatives, the steering committee for the interdisciplinary "Green and Sustainable Finance" research program run by Institut Louis Bachelier, etc.).

LA FRESQUE DU CLIMAT

# Our governance

## 5-3 Participation in financial industry initiatives

We support initiatives and best practices supporting the integration of environmental considerations into investment activities.

We have been a member of the UN's Principles for Responsible Investment (PRI) since 2010, of the Carbon Disclosure Project since 2013, of the Montreal Carbon Pledge since 2015, and were one of the official sponsors of the COP21 in 2015. We have been a member of the Institutional Investors Group on Climate Change (IIGCC) since 2017 and of the Forum for Responsible Investment (FRI)'s board of directors since 2017, signatories of the TCFD recommendations in 2017, members of the Farm Animal Investment Risk & Return initiative (FAIRR) since 2018, signatories of the Climate Action 100+ since 2019. We were co-founders of the NEC Initiative in 2019 and among the group of asset managers advocating biodiversity and members of the consortium that selected the Corporate Biodiversity Footprint (CBF) as a metric for biodiversity footprints in 2020. We have been signatories of the Finance for Biodiversity Pledge since 2021, members of the Partnership for Biodiversity Accounting Financials (PBAF) since 2021, a shareholder of the NEC Initiative since 2021, have committed to a SBTi-approved target and have been members of the TNFD Forum since 2022.

# Our governance

## 5-4 Transparency with our stakeholders

To conclude, we believe in the faithful and transparent disclosure of the environmental performances of our investments through regular publications that are readily accessible to our stakeholders.

Therefore, since September 2022, we have developed a new format of extra-financial reports which include the following information for all funds and indices:

- The E score and NEC;
- The percentage of income eligible for the European taxonomy;
- The share of a company's income derived from fossil fuels, from upstream activities down to refining and energy production;
- The average carbon footprint or tonnes of equivalent $CO_2$, per year and per million euros of enterprise value, based on the widest available scope for GHG emissions (according to the GHG Protocol): scopes 1, 2 and upstream scope 3, but excluding downstream scope 3, and avoided emissions, alias scope 4.

For some of our funds, reports also provide the following information:

- The average implied temperature rise by 2100, compared to preindustrial levels, according to the SB2A methodology;
- The percentage of investee companies whose GHG emission reduction targets have been approved by the SBTi;
- The Corporate Biodiversity Footprint for two 'pilot' funds: Sycomore Sélection Responsable and Sycomore Europe Eco Solutions.

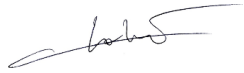
For this data (and for all extra-financial data provided in our fund reports), we offer detailed information on how the indicator was defined and the source for the data; when referring to methodologies, we explain the main assumptions, advantages, and limitations, in our **Reporting**.

These enhanced monthly reports are available on our website and provide our stakeholders with visibility on the environmental issues relevant to our funds. Finally, the implementation of this strategy is discussed in our annual Responsible Investor Report, **Sycoway as an investor**.

Members of the Executive Commitee

**Christine Kolb**

Chairman / Managing director



**Cyril Charlot**

Deputy Managing Director

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