NATURAL CAPITAL STRATEGY

SYCOMORE ASSET MANAGEMENT

Second update: July 17th, 2020

First update: May 22nd, 2018

First publication: July 29th, 2016

This document provides an overview of Sycomore AM's approach to environment and natural capital-related issues. This approach is fully consistent with our philosophy and our positioning as responsible investors and outlines our mission[1] in relation to the Environment as a stakeholder. The document is shared with all of our stakeholders: employees, clients, suppliers, institutions, associations, shareholders and companies within our investment universe. It governs how we engage with stakeholders and steers our internal processes and our investment strategy.

[1] *Mission incorporated to the company's articles of association in 2020: "We invest to develop an economy that is more sustainable and inclusive and to generate positive impacts for all of our stakeholders. Our mission: make investment more human".*

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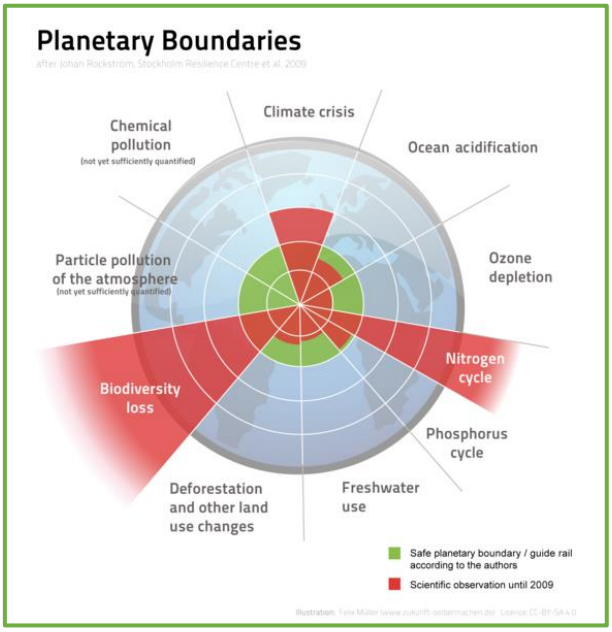
1. Framework

The scientific framework we have adopted is based on:

- Work conducted by the **Millennium Ecosystem Assessment** [2], begun in 2001 and published in 2005;
- Research on **planetary boundaries**[3] published in 2009 (3 boundaries overshot, cf. graph on the right) and updated in 2015;
- Work conducted by the **Intergovernmental Panel on Climate Change**, IPCC, created in 1988, and particularly its recent reports[4];
- Research by the **IPBES**, *Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services*, created in 2012;
- **Lifecycle analysis** results and **databases**, compliant with ISO[5] standards.



This scientific framework is further enhanced with institutional frameworks from diplomatic, legislative, economic or financial sources.

In 2015, the United Nations adopted the 17 Sustainable Development Goals (SDGs). These goals have gradually become recognised as a global benchmark for public and private sector players used to measure progress made by humankind. Nine of these goals cover environmental issues: the 6th is about Water, the 13th concerns Climate, numbers 2, 14 and 15 relate to ecosystems and the sustainable food supply these can produce. Goals 7, 9, 11 and 12 cover energy consumption, production and systems, both industrial and urban.

In June 2017, following a request by the G20 and Central Bank governors and addressed to the *Financial Stability Board* (FSB), the **Task force on Climate-related Financial Disclosures (TCFD)** drew up a set of recommendations[6] with a view to developing information disclosure on **climate-related risks and opportunities** that would be of use to investors when making investment decisions.

These recommendations cover the manner in which the organisation embeds these risks and opportunities throughout its strategy and governance, but also how they are identified and managed, including its indicators and objectives. This present document is compliant with the recommendations as far as the following 4 parties are concerned: Governance, Strategy, Management of environmental risks, Indicators and Objectives. Several NGOs are now pushing for a TNFD, *Task force for Nature-related Financial Disclosures*, with a view to widening the scope and encouraging the financial industry to focus on issues beyond the Climate.

[2] *The Millenium Ecosystem Assessment (MEA) is an international research programme designed to provide the public and decision-makers with scientific intelligence covering the consequences of changing ecosystems, for the well-being of mankind, and on the possible reactions to these changes cf.* http://www.millenniumassessment.org/fr/

[3] *In January 2015, scientists published an update on their work in Science, and reached the conclusion that four of the planet's boundaries have now been overshot or are about to be: climate change, erosion of biodiversity, the disruption of the global nitrogen cycle and disruption of the phosphorous cycle (new boundary overshot).*

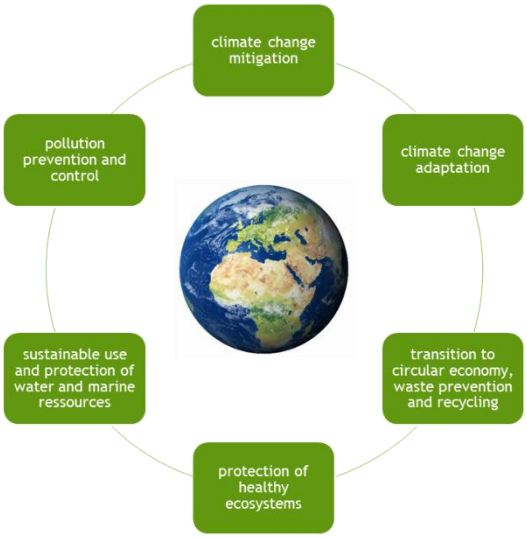
[4] *2014 AR5 report, 2018 SR15 special report on the consequences of a 1.5°C rise in global temperatures, SRCCL August 2019 special report on the use of lands, and September 2019's SROCC special report on oceans and the cryosphere.*

[5] *ISO14040:2006, 14041 to 14044 and 14072 :2014 standards*

[6] *See* https://www.fsb-tcfd.org/publications/final-recommendations-report/

In 2018, following the research conducted by the ***High-Level Expert Group on Sustainable Finance***, the European Commission unveiled its action plan for sustainable finance, including a European ecolabel based on a classification, or taxonomy, of green activities, focusing on the following 6 environmental issues:

- Climate change mitigation,
- Climate change adaptation,
- Sustainable use and protection of water and marine resources,
- Transition to a circular economy, waste prevention and recycling,
- Pollution prevention and control,
- Protection of healthy ecosystems.



In December 2019, the European Commission unveiled its Green Deal for Europe, the aim of which is to ensure the European Union is climate-neutral by 2050; the European Council adopted its **green taxonomy**[7], driven by a lifecycle analysis philosophy and covering 70 activities.

In France, and with effect from 2016, article 173 of the **French Energy Transition Law for Green Growth**[8] led to firmer climate-related disclosure requirements for companies and investors on their **integration of environmental, social and governance (ESG) criteria**[9], but also on their **contribution to the ecological transition** and **fight against global warming**. That same year, the French government launched the **Greenfin label**, based on impact metrics, a green taxonomy of eco-activities and wide-ranging exclusions covering all fossil fuels and nuclear energy.

Since January 1st 2020, the PACTE law requires that life-insurance distributors offer at least one Finansol, SRI or **Greenfin**-labelled financial product; from January 1st 2022, they will have to offer at least one financial product certified by each of these three labels.

GREENFIN LABEL
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Finally, in 2020, the French regulator, *Autorité des Marchés Financiers* (AMF), unveiled recommendations[10] aimed in particular at strengthening the fight against *greenwashing* in financial product offerings.

[7] *Voted by the European Parliament on June 18th 2020, meaning that this taxonomy will be an integral part of European regulation starting from 2021.*
[8] *Voted on August 17th 2015 with enforcement decree n°2015-1850, published on December 29th 2015.*
[9] *Requirements at European Union level from 2019.*
[10] *Position - AMF recommendation - DOC-2020-03 - Information to be supplied by undertakings for collective investments with embedded extra-financial approaches*

2. Governance

The management of environmental issues is an integral part of Sycomore AM's governance in terms of corporate social and environmental responsibility (CSR). The firms 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 the procurement of goods, services and energy, business travel and remote-working policies, but also the indirect impacts generated through our investments. As these generate the largest impacts for us, in our role as asset managers, they are covered in a separate annual responsible investor report - Sycoway as an Investor - which gives a specific account of the environmental impacts of our investments.

The governance of Sycomore AM's direct and indirect impacts is structured around:

- Our **Environment Strategy Director**, fully integrated to the investment team and reporting directly to Sycomore AM's CEO and Business Development Director; the Environment Strategy Director is responsible for R&D in matters of environmental impact and their integration into the investment process;

- An expert consulting committee: in 2015, Sycomore AM created a **Strategic Environment Committee** chaired by the Environment Strategy Director, bringing together qualified professionals with very diverse backgrounds: experts, investors, corporates and NGOs. This committee, which has a dozen members, meets twice a year to review and discuss aspects of Sycomore AM's Natural Capital Strategy. Acting as a steering and supervisory committee, it is a unique venue for discussion and debate, where members can express themselves freely on a personal basis;

- The **Mission and Sustainable Development Committee**: created in 2018 and with members representing different occupations within Sycomore AM, the committee defines and monitors the commitments and objectives that contribute to the successful achievement of our mission, including on environmental issues, and in collaboration with the Environment Strategy Director.

The main guidelines and the progress made on actions covered by the present Natural Capital Strategy are reviewed at least:

- Once per year by Sycomore AM's **Supervisory Board**;
- Once per year by the **Mission and Sustainable Development Committee**;
- As many times as deemed necessary by the **Management Board**.

3. Strategy

Sycomore AM considers the environment to be **a key stakeholder - the very foundation for the resilience of mankind** as a species and as a civilisation. The Environment stakeholder covers the full spectrum of the biosphere's common goods, as an **ecosystem services** provider, consistent with the Millennium Ecosystem Assessment's definition. It is our natural capital, enjoyed by all forms of life and passed on to future generations.

Sycomore AM's environmental impacts are mainly indirect as they are derived from **the companies in which we invest**. Therefore, our approach to natural capital focuses primarily on the indirect impacts generated by our investments. It is based on four pillars:

- **Engagement**: Sycomore AM supports the initiatives and best practices aimed at furthering the integration of environmental issues across the asset management industry: signatories of the United Nations' Principles for Responsible Investment (PRI) since 2010, the Carbon Disclosure Project since 2013, the Montreal Carbon Pledge since 2015, official sponsor of the COP21 summit in 2015, member of the GIIN since 2016, member of the IIGCC since 2017, Board Member of the Forum for Responsible Investment since 2017, signatory of the TCFD recommendations in 2017, member of the FAIRR since 2018, signatory of the Climate Action 100+ since 2019, co-founder of the NEC Initiative since 2019, and co-initiator of the investors' action for biodiversity in 2020. We have adopted an active voting policy, as demonstrated by the resolution we submitted at Total's shareholders' meeting in 2020. Sycomore AM also holds on-going shareholder dialogue and conducts targeted engagement initiatives with companies on environmental issues[11].

- **Systematic integration of environmental issues as part of our fundamental analysis:** Sycomore AM measures companies' performance and environmental impacts through:

  - The Environment score of our SPICE analysis model;
  - The NEC, Net Environmental Contribution, advanced indicator.

  As quality analysis requires quality measurements, our environmental analysis aims at integrating all major environmental issues and impacts in order to better capture the systemic dimension of the biosphere's functionalities.

- **A range of responsible, impact-driven investment strategies**, which embed natural capital issues within their investment process:
  - Sycomore AM's SRI exclusion policy[12], largely based on environmental factors (thermal coal, non-conventional oil and gas, …),
  - An increasing number of funds employ the NEC as a selection criterion within their investment process (Sycomore Eco Solutions since 2015, *Sycomore Sélection Responsable* since 2017, Sycomore Next Generation since 2019 and *Objectif Climat* since 2020, …);
  - Several funds within the responsible investment range received the **Greenfin**[13], **Towards Sustainability** and/or **Umweltzeichen** labels, which integrate environmental criteria, with different requirement levels.

[11] *Cf. documents available here https://www.sycomore-am.com/5e6b6aac-3._Sycomore_AM_Politique_d_engagement_2019_FR.PDF et https://www.sycomore-am.com/5cb747f9-Politique_de_vote_SAM_2019_VF.pdf*
[12] *Available at https://www.sycomore-am.com/Notre-demarche-responsable#documentation*
[13] *Sycomore AM was the first asset manager to receive the Greenfin label for its listed equity fund Sycomore Eco Solutions in May 2016.*

- **Transparent reporting:** Sycomore AM is committed to reporting this environmental performance to its **clients** using simple, reliable and meaningful metrics. We therefore publish the following information every month for our main strategies and their benchmarks: E and NEC ratings, carbon footprint in tons CO_2 equivalent per year and per million € invested - covering scopes 1 and 2 and upstream Tier 1 suppliers in scope 3, which include neither the full upstream and downstream parts of scope 3, nor avoided emissions or scope 4.

The global economy's shift to a more environmentally sustainable growth pattern is as inevitable as it is essential. The move towards a **green and low carbon economy** – often referred to as the environmental transition - is under way across the world, in very diverse forms and at different paces, generating new risks and opportunities. Against this complex and evolving background, identifying **negative environmental impacts** and **associated risks**, as well as **positive impacts** and **opportunities**, is a key mission for us as asset managers.

To achieve this, we favour a **field approach**, starting with company activities and including the **full spectrum of environmental issues** – in no predetermined order of importance, as:

- Environmental impacts are usually **interwoven**. For example, deforestation and land degradation will amplify climate change, and vice-versa.
- Single polluting substances often have **multiple impacts**. For example, sulphur dioxide (SO_2) is a colourless gas that is toxic when breathed and causes the acidification of rains too. Another example would be chlorofluorocarbons (CFC), greenhouse gases that also destroy the ozone layer.
- 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.

Furthermore, any solution or response to an environmental 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. Similarly, the development of electric vehicles in a country where the electric mix has a high carbon content is not a solution for climate change mitigation, but it does generate tangible improvements of air quality in cities.

As a result, our strategy is founded on a **multi-issue and lifecycle** approach to a product's **usage and solutions**, and displays the following technical characteristics:

- An **exhaustive** approach: covering the **full spectrum of environmental issues** (therefore based on multiple criteria, unlike the carbon-only approach, for example) of the company's activity, including **the end-use** of the products and services offered, and covering their **negative and positive impacts**, such as saved energy saved, emissions avoided or tonnes recycled;
- A **physical and quantified approach**, notably via the **NEC**, *Net Environmental Contribution*, and with a focus on **physical pollution flows generated and/or avoided per physical unit of the function that is served,** such as the kWh of energy supplied, km travelled or tonne produced;
- A **pragmatic approach**: focusing on the main material impacts, mindful of orders of magnitude, but without claiming to offer absolute accuracy, which would be unachievable today due to poor transparency and quantification on the corporate side.

- An **integrated approach**: our fundamental analysis, conducted for each of our investments using our **Sycovalo** valuation tool, systematically includes an **extra-financial SPICE scoring** (**multi-stakeholder analysis**) covering environmental, social, societal and governance factors.

Furthermore, due to the disparity of existing mapping systems in the field of environmental impacts, we have structured our own analysis around 5 key issues: **climate, biodiversity, waste/resources, water and air quality**. These five environmental issues are derived from the cross referencing of the multiple reporting formats used by companies, the 9 planetary boundaries, the European taxonomy's 6 environmental objectives, and the 4 categories specific to the Life Cycle Assessment methodology – climate change, depletion of resources, deterioration of ecosystems and threats to health – and the 3 forms of physical interaction with the environment: gas, liquid and solid.

The pollutants that enable us to trace and quantify the impacts caused by human activity on nature can be mapped out as follows, based on the 5 key issues:

	Climate	Biodiversity	Water	Waste/resources	Air quality
Impact tracers	Greenhouse gas (GHG) emissions (conventional and non-conventional fossil fuels, etc) and absorption by carbon sinks	Use of soils, damage to land or marine ecosystems, diversity of species, deforestation	Fresh water (stress and availability), water cycle, underground water and aquatic environment contaminants	Natural resources, solid and liquid waste, including hasardous and radioactive waste	Air at ground level, aerosols, non-climate related atmospheric phenomena
Gas pollutants	Greenhouse gases (GHG): CO_2, CH_4, N_2O, halogenated hydrocarbons (HFC, PFC, $SF_{6...}$)	Toxic gases, acid-producing gases (SO_2, SO_3, NO, NO_2,...), endocrine disrupters, etc	Gases contributing to ocean acidification (CO_2, nitrogen oxide, sulfer oxide, etc)	Gases produced from decomposing organic and hasardous waste.	Volatile organic components, NO_x, SO_2, ozone layer depleting gases ,...
Liquid pollutants	Pollutants impacting the carbon or nitrogen cycles, liquid fuels (oil, GPL, GNL, etc)	Pesticides, eutrophic substances,endocrine disrupters, toxic products etc.	Fresh water intakes, organic and mineral pollution, endocrine disrupters, toxic products, etc	Liquid waste	Sprays, fine liquid particles
Solid pollutants	Coal, lignite, peat, oil sands	Waste impacting land ecosystems, soils (heavy metals, biocides, nitrogen fertilizers, etc.) and aquatic environments (plastics, etc)	Aquatic contaminants (water tables, wetlands, rivers, seas, oceans, etc.)	Flows of solid waste and resources (metals or minerals, such as sand), excluding fossil fuels	Solid airborne particles : smog, dust, fine particles (PM10 and PM 2,5)

The following table lists the links between each issue and each of the planet's boundaries[14]. We observe that 5 covered issues enable us to incorporate all of the 9 boundaries. Furthermore, among the 4 planetary boundaries that have already been overshot, the **issue of biodiversity is systematically present**, with a direct link due to its interdependency with the **climate.** Both of these highly systemic issues receive particular attention as part of our analysis.

[14] *Source of global situations: "L'environnement en France, 2019", French "Ministry of Ecological and Solidarity Transition" and Sycomore AM's 10th Strategic Environment Committee Review in April 2020.*

Issues and planetary boundaries: ✓ direct link - ✓ strong indirect link

Planetary boundary	Global situation	CLIMATE	BIODIVERSITY	WATER	WASTE / RESOURCES	AIR QUALITY
Climate change	Boundary overshot (notably greenhouse gas concentrations in atmosphere)	✓	✓			
Erosion of biodiversity	Boundary overshot (species extinction rate 10 times higher than the limit set)		✓		✓	
Disruption of the global nitrogen and phosphorous cycles	Boundary largely overshot for nitrogen (excessive losses) and boundary overshot for phosphorous		✓	✓	✓	
Changing soil uses	Boundary overshot (carbon sink capacity)	✓	✓			
Ocean acidification	Global boundary not crossed, but high risk of further acidification due to global warming	✓	✓			
Global use of water	Global boundary not yet crossed, but many local overshoots			✓		
Stratospheric ozone depletion	After years of overshooting, limit almost respected					✓
Rising aerosols in the atmosphere	Global threshold has not been set, some regional situations are worrying (South-East Asia)					✓
Chemical pollution and generally, new elements entering the biosphere	Global threshold has not been set, nanoparticles for example.		✓	✓	✓	✓

Finally, an examination of the United Nations' Sustainable Development Goals targets[15] shows, as per the following table, that the 5-issue structure enables us to cover the **9 environment-focused SDGs**. The table records the links between the 5 issues and each target; these are then classified according to their level of importance, using the following scale:

	At least 2 targets with strong direct links OR At least 1 target with strong direct link + At least 1 target with strong indirect link
	1 target with strong direct link
	At least 1 target with strong indirect link
	Weak link, or no link

26 targets explicitly refer to the environment or to our natural heritage. Two targets (1.5, 8.4) refer rather marginally to the environment and are included in societal-driven goals: goal number 1 on poverty and goal number 8 on decent work. Similarly, the targets of goal number 3 on health and well-being only focus on humankind. As a result, although health is closely linked to the quality of our environment and that damage to the environment causes almost one quarter of human mortality throughout the world[16], these targets were not included in the review. However, they serve to remind us that the most

[15] *The 17 Sustainable Development Goals are broken down into 169 targets, or sub-goals. Descriptions can be obtained via the following link: https://www.un.org/sustainabledevelopment/fr/objectifs-de-developpement-durable/*
[16] *According to the WHO, in 2012, 12.6 million people died because of living or working in an unhealthy environment, 2016.*

elementary of human and societal objectives cannot be achieved if the natural environment is hostile or damaged. We **note very strong connections for 19 of the 24 targets**[17], as illustrated in the table below:

This review indicates that the scope determined for the 5 main issues, also used for calculating the NEC, should, in theory, allow us to draw connections between the environment-focused SDGs and impact measurements. Nevertheless, at this stage, only SDG exposure measurements have been tested and research on contributions is hindered by the complex task of aggregating, within the macrostructure of the SDGs (mostly aimed at governments), extremely varied positive and negative impacts at microeconomic level.

Ultimately, the reviews that were conducted revealed that the 5-issue structure **effectively covers the large variety of physical impacts on the environment**, and therefore **their ensuing risks.**

[17] *Across the 169 targets: 2.4, 2.5, 6.3, 6.4, 6.6, 7.2, 7.3, 12.2, 12.3, 12.4, 12.5, 14.1, 14.2, 15.1, 15.2, 15.3, 15.4, 15.5 and 15.8*

4. Risk management

As shown in the table below, we have structured our **SPICE**[18] fundamental analysis – also referred to as ESG for Environment, Social and Governance – around key stakeholders. Our environmental assessment is carried out from the perspective of the biosphere, based on the module **E - for Environment**. Our approach strives to be as little anthropocentric as possible, with mankind considered as one of ten million other living species. The direct impacts on people and broadly speaking, the anthropocentric and economic viewpoints, are considered in the other **S**, **P**, **I** and **C** modules:

Modules	Stakeholders	Types of environmental analysis
S	Suppliers and Society/ Supply chain	Impacts on human health and quality of life (residents, users, suppliers, …)
P	People/employees	Impacts on employees' health and quality of life
I	Investors / shareholders Governance + Business Model	Sustainable development governance, risks and opportunities relating to the energy and environmental transition
C	Clients	Impacts on clients' health and quality of life, reputational risks
E	Environment	Impacts on the biosphere, environment and climate-driven risks and opportunities, including physical and transition risks

For instance, when looking at food: the impacts on public health and safety are analysed under pillars **C** and **S**, while the pillar **E** focuses on impacts caused by the production of commodities (impacts of farming and livestock on water resources, soils, biodiversity and climate), the food processing, waste and packaging.

Since 2015, Sycomore AM has invested a great deal of time and resources on improving the way climate issues are integrated to the SPICE analysis model; the climate is one of the 5 issues systematically reviewed in the **Environment** module and is also assessed within the **Investor** module in the context of our research on corporate governance and business models. The **SPICE** analysis model was revised in 2019 to better include the recommendations issued by the TCFD and the dynamic nature of business models, and in particular the following:

- **The risks associated with the transition** towards a low-carbon economy, and broadly speaking, the issuer's strategic alignment with the environmental transition and global warming objectives: this weights 50% of the **E** rating and brings together 3 analysis areas:

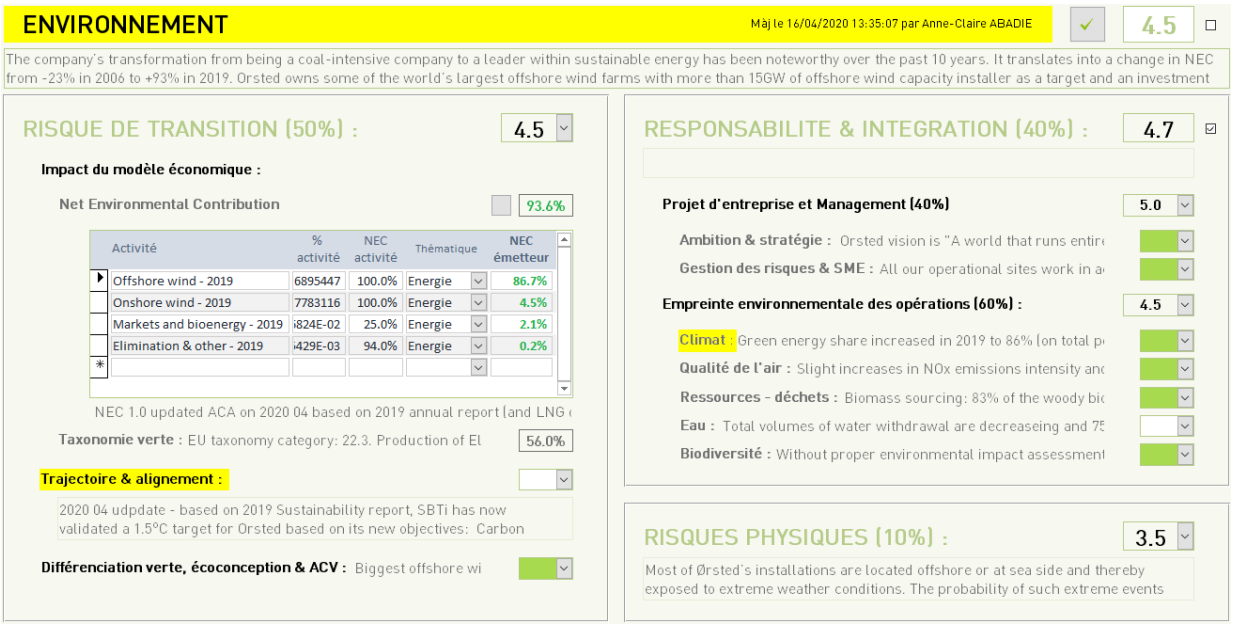
  - The **impact of the business model** measured by the **NEC,** which reflects the current transition risk if the business model is stable - i.e., if it doesn't change and that the NEC remains constant. The NEC tends to be the most reliable information and makes up the largest share of the transition risk rating. It may be enhanced using classification factors, such as the "green share" according to the European taxonomy.
  - **Trajectory and Alignment** factors, which provide information on the trajectory the company is on. This information can be quantified based on the company's strategic plan and objectives. For example: alignment with climate scenarii, target temperature reviewed by the *Science-Based Targets Initiative*, planned investments and/or divestments. Some of these

[18] *S for Suppliers and Society, P for People – i.e. employees, I for Investors, C for Clients and E for Environment, cf. our ESG Integration Policy: www.sycomore-am.com.*

factors can be translated into a "forward NEC" and used to calculate a NEC trajectory. They bring a dynamic and forward-looking dimension to the transition rating;
- **Green differentiation** factors, such as eco-design, lifecycle analysis, environmental leadership etc. These can be used to capture intra-sector differentiation – whereas the two criteria mentioned above are universal, i.e., trans-sector. Peer comparison analysis helps to refine our transition risk rating.

- **Physical risks**, caused by the physical consequences of environmental damage and of climate change in particular. These are estimated on a scale of 1 to 5 and include, to the greatest possible extent, risks on the company's assets and on its value chain, from its suppliers to its clients. However, most of the consequences of climate change remain unpredictable and these risks are particularly difficult to assess. Physical risks weigh 10% of the E rating.

As shown in the example below for Orsted, the remainder of the E rating, with a 40% weighting, reflects the company's environmental accountability and the integration of environment-related factors within its direct scope – through its corporate project, its environmental management system and operational footprint.



Following this analysis, we assign an Environment rating on scale of 1 to 5: the higher the rating, the better risks are managed by the company.

5. Indicators and objectives

Quantification work using metrics and set objectives is grounded in the key issues referred to previously, both in terms of the SPICE proprietary analysis and in the calculation of the NEC, Net Environmental Contribution. After 4 years of R&D and deployment tests on the ß version conducted between 2015 and 2019, the NEC Initiative has supplied the 1.0 version of the NEC since 2019 - a collaborative effort and open-source initiative co-founded by Sycomore AM, Quantis and I Care&Consult. The NEC Initiative offers a public and free access to the methodology (16 documents, 200 sources) and publications via www.nec-initiative.org.

Since 2020, it has provided its co-founding members with access to the 300 default NEC values, to training sessions covering the full methodology, and to calculation tools. As of today, Sycomore AM and its

partners have calculated NECs for over a quarter of the world's market capitalisations, covering over 2,400 issuers of stocks and bonds. Finally, the NEC has been referenced as an alignment metric in several international research projects[19].

The NEC measures **the extent to which a business (company or project) is aligned with the environmental or climate transition**. With a scientific grounding and based on physical units, the NEC covers climate issues, but also biodiversity, water, waste/resources and air quality. The NEC employs a lifecycle approach and takes into account main impacts, throughout the value chain. The result is expressed as a single score, on a scale of -100% to +100%, applicable to all activities and all asset classes, allowing the metric to be aggregated at portfolio and index level.

The NEC has several purposes. First, it offers a holistic measurement of the **risks and opportunities** associated with the environmental transition. On this issue, academic work on the relations between financial performance and NEC conducted with BNP Paribas Securities Services and published in 2019[20], showed very encouraging results on the use of the NEC (ß version) in investment strategies over 3 and 5 years. This analysis is being updated in 2020 based on the research conducted with Institut Louis Bachelier, academic sponsor of the NEC Initiative. The precise assessment of this risk is fundamental for asset managers, such as Sycomore AM (listed equities and bonds), Comgest or Swen Capital Partners (private equity, infrastructure and private debt), also members of the initiative. The NEC also feeds corporate shareholder dialogue by providing a metric on a company's strategic positioning and progress that is both objective and comparable with peers.

The NEC also has a strong explanatory power as it offers a tangible answer to the following question: "Is this business model, issuer, investment, asset manager or asset owner green, grey or brown?" Going beyond the binary character of taxonomies, the NEC's gradient carries an **educational dimension**, which caught the attention of Novethic, one of the earliest subscribers to the NEC Initiative and Lita.co, the impact-driven crowdfunding player. As such, the NEC is a **transparency and a compliance tool**, aligned with the TCFD recommendations, with the European extra-financial reporting requirements and with Article 173 of the French law on Energy Transition for Green Growth. Asset owners such as Ircantec, Groupama and BNP Paribas Cardif, use the NEC in their **reports** and Sycomore AM has been systematically disclosing the metric since early 2018.

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[19] WWF report "Aligning Finance For One Planet" published in November 2019 https://wwf.panda.org/wwf_news/?355935/Aligning-Finance-For-One-Planet and "The Alignment Cookbook, A Technical Review of Methodologies Assessing a Portfolio's Alignment with Low-Carbon Trajectories or Temperature Goal" report, Institut Louis Bachelier in partnership with I4CE, MTES and WWF, July 2020, https://www.louisbachelier.org/wp-content/uploads/2020/07/rapport-0207-mis-a-jours.pdf

[20] Academic paper accepted and presented at the 12th International Financial Risk Forum, March 18th, 2019, Paris: "Is the transition risk material?" on : https://nec-initiative.org/publications-2/

The NEC is also used as **cornerstone for impact-driven responsible investment strategies** as it provides a robust criterion for stock selection. An increasing number of Sycomore AM's funds use the NEC as an investment criterion, with thresholds set at -10%, 0% and +10%.

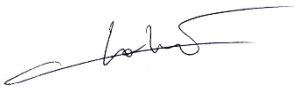
Finally, designed by investors for investors, the smaller the size of the business, the easier it is to calculate the NEC. This means the metric is particularly useful for assessing **small and mid-sized companies**, which often slip under the radar of ESG data providers despite accounting for most of the real economy and jobs. In practical terms, the NEC is proving to be a very useful **compass for navigating the environmental transition.**

The NEC Initiative is open to all financial sector stakeholders: investors, issuers, banks, insurance companies, financial data and service providers, institutions, NGOs, academics, professional organisations … Considering the urgent action needed in response to environmental and climate-related challenges, we are convinced that **cooperation and transparency are no longer an option but a necessity**.

TO SUMMARISE

We have a preference for indicators based on physical impacts that are as close as possible to corporate business models in the field and follow the changes that occur over time. As far as indicators and objectives are concerned, our policy can be summarised as follows:

- A **holistic, multi-issue** approach that goes beyond climate-related challenges and also includes biodiversity, based on the NEC and the E module within SPICE;
- A **pragmatic approach that can be scaled up or down** according to the materiality of different issues: the degree of analysis will be higher for material environmental impacts – whether negative, positive or both;
- **Trajectory alignment metrics** based on the human-induced global temperature rise according to the latest scenario published by the IPCC and IEA, and notably the *Sectorial Decarbonization Approach*, SDA, used in the *Science-Based 2°C Alignment*, SB2A methodology and the *Science Based Targets Initiative*. The NEC trajectories provide additional information.
- **R&D** on how to **improve the integration of biodiversity issues**, climate-modelling on human-induced temperature rises based on NEC trajectories and interfaces with the best scientific references available;
- **Transparent** reporting on our results and on the sources used in our monthly and annual publications and through our on-going support to the NEC Initiative.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