

NEC

Net Environmental Contribution

NEC 1.1



January 2024

AGENDA

- | | |
|---------------|--|
| 12h00 – 12h05 | The NEC Initiative, a market governance for the common good |
| 12h05 – 12h45 | Presentation of the NEC <ul style="list-style-type: none">- Generic introduction- Usages & applications- V1.1 upgrade:<ul style="list-style-type: none">- Biodiversity- Focus on the Finance sector |
| 12h45 – 13h00 | Q&A |

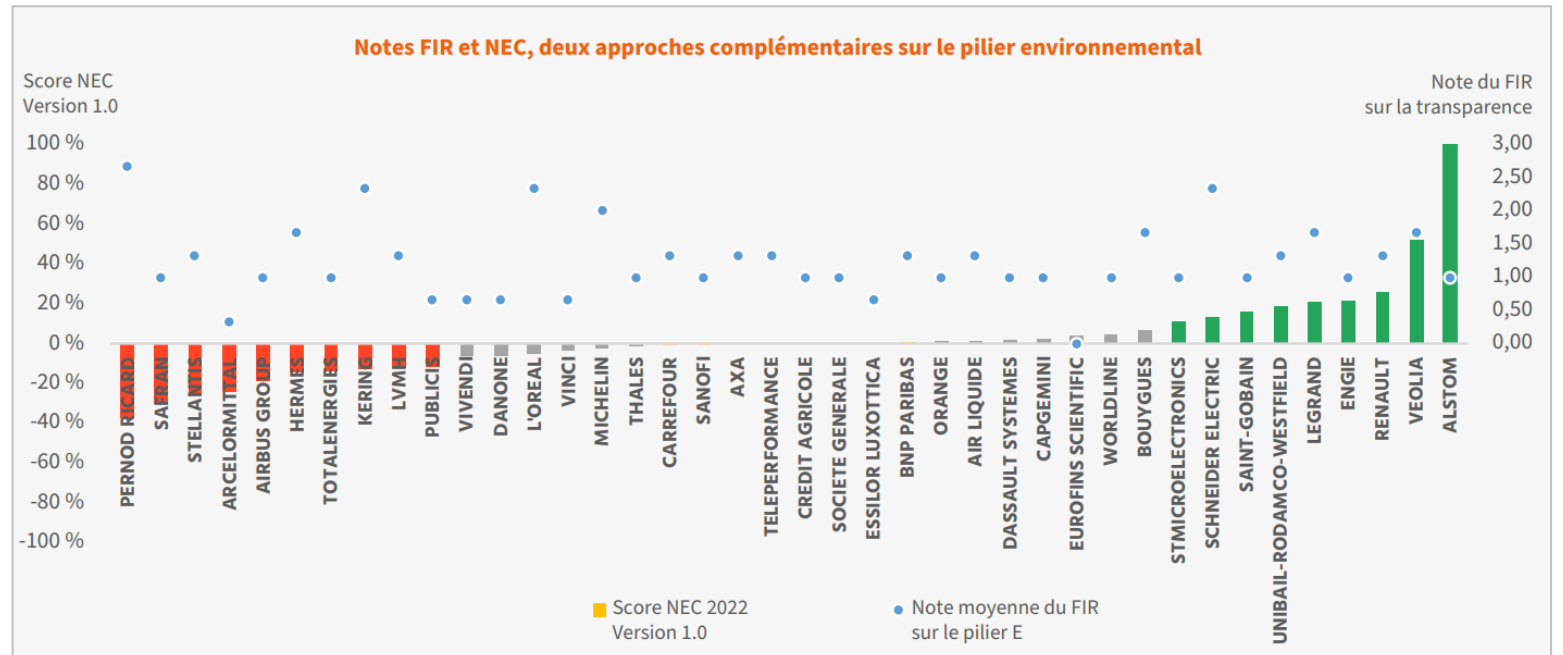
A market governance for a market standard

Collaborative, open and transparent across the board:

For investors, by investors



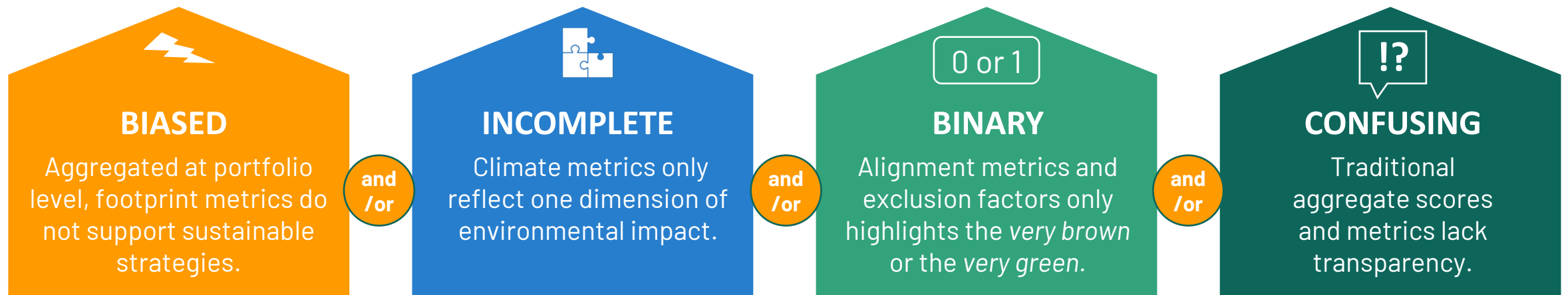
January 17th 2024



AGENDA

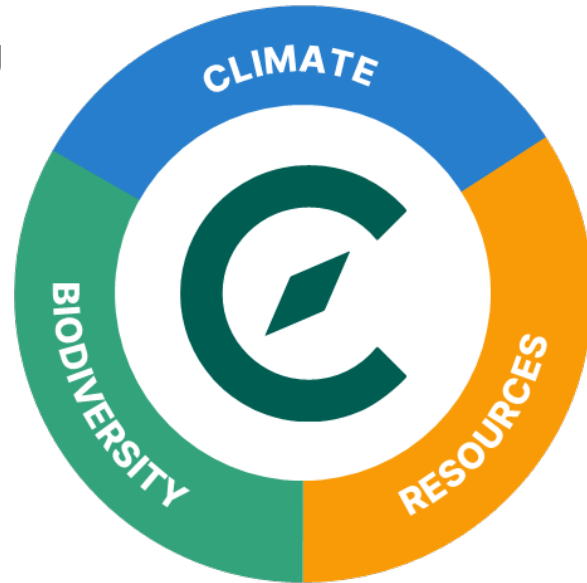
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 - **Generic introduction**
 - Usages & applications
 - V1.1 upgrade:
 - Biodiversity
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Available environmental metrics are not decision-useful



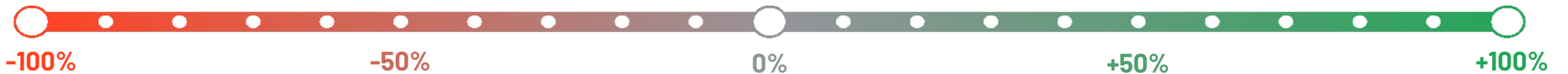
➤ The first holistic, global & transparent environmental metric

- **The NEC goes beyond carbon** by aggregating relevant environmental dimensions at sector level
- **The NEC is life cycle based.** Environmental performance is measured through products' life cycle

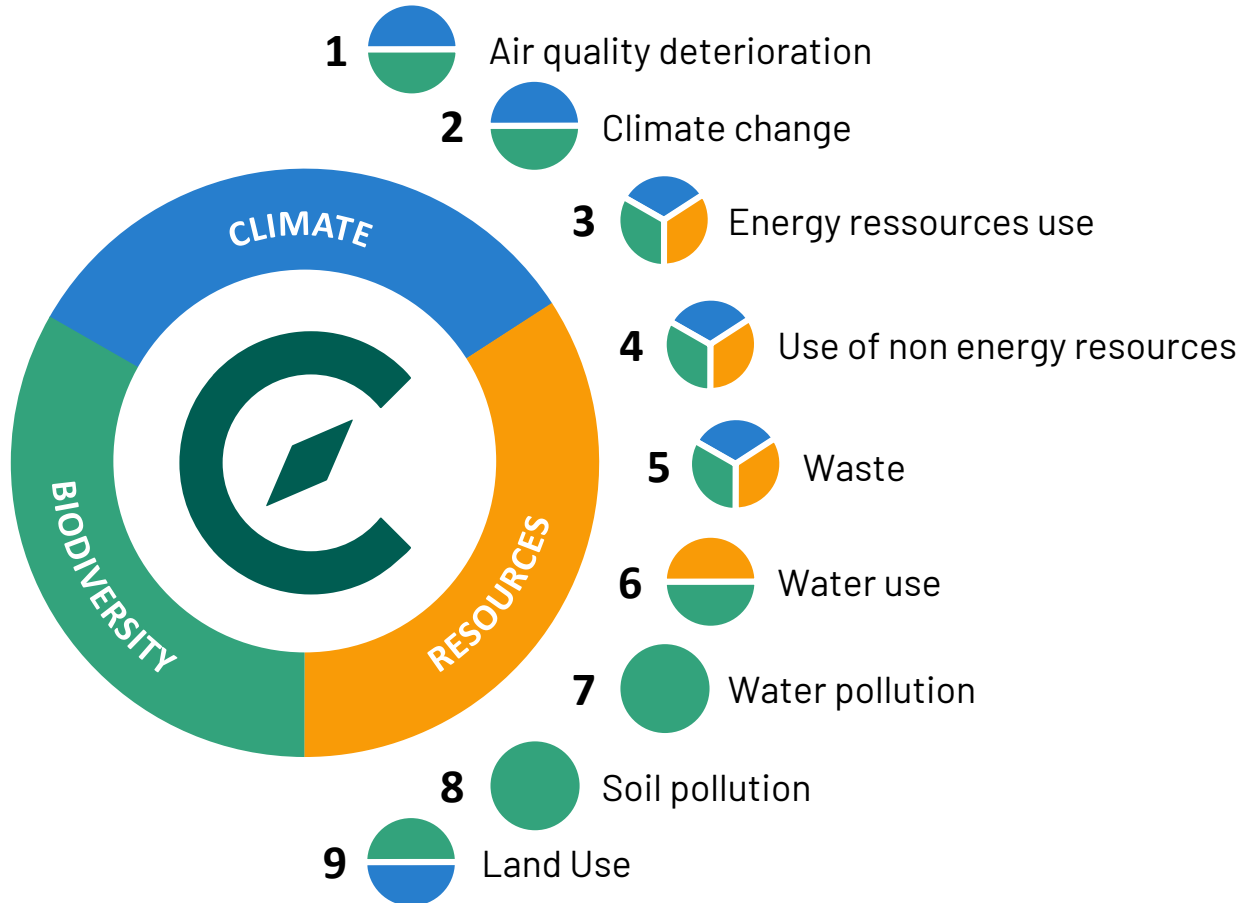


- **The NEC is transparent.** NEC methodology is fully detailed and accessible at www.nec-initiative.com
- **The NEC is global.** It can be applied to any region, company size, sector, corporate activity and class of asset

- **The NEC is granular.** It provides : 200 shades of brown and green, from **-100%** to **+100%**.

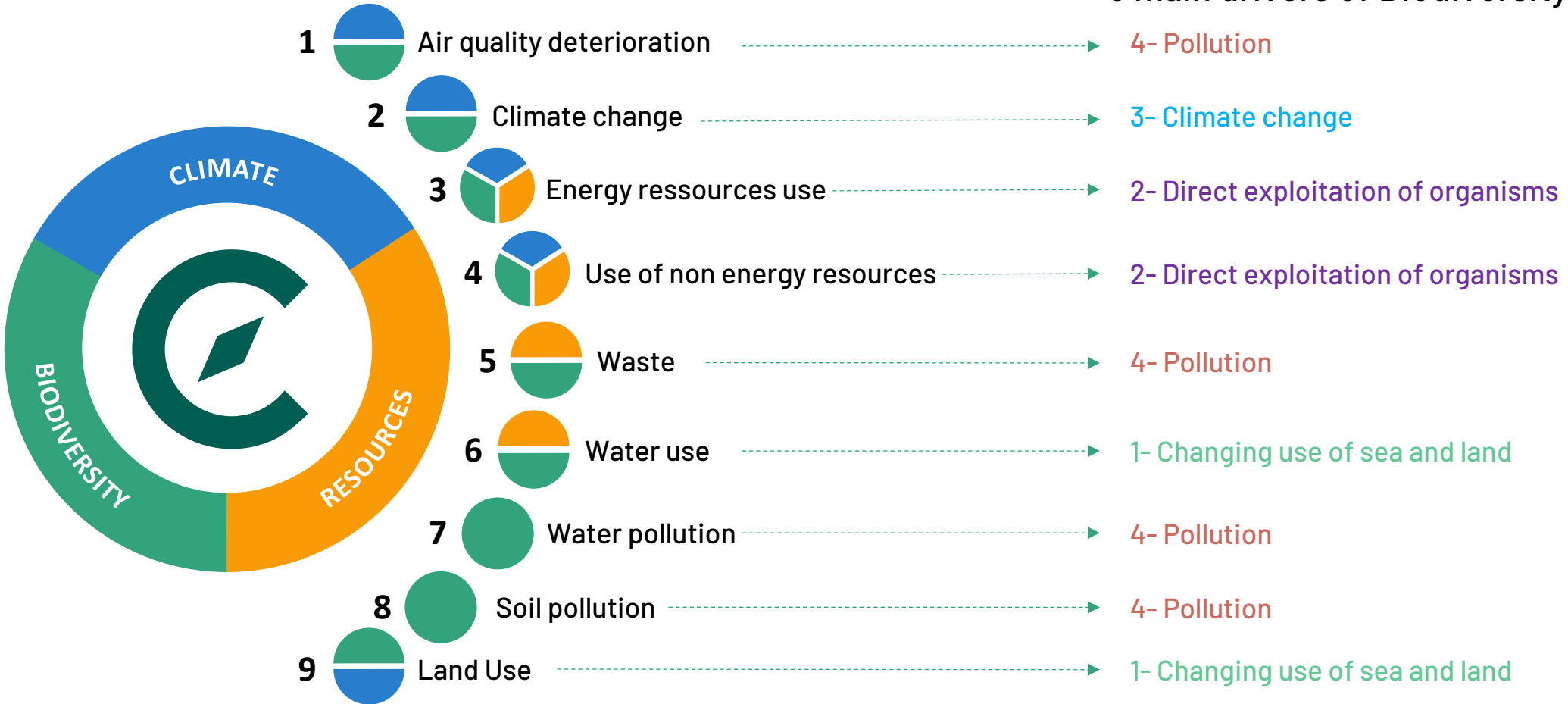


A comprehensive impact-based metric



Based on 9 categories of impacts on Nature

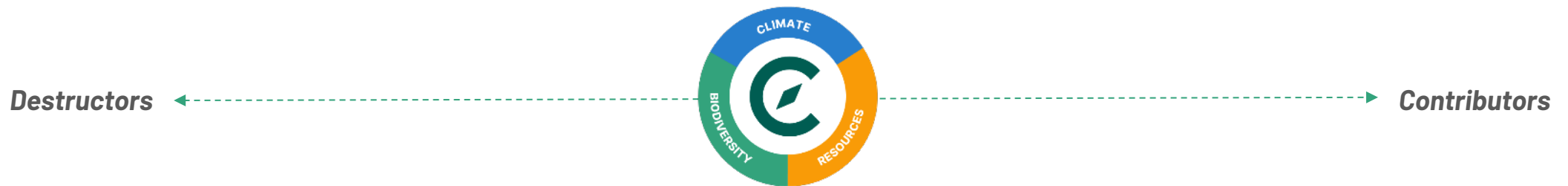
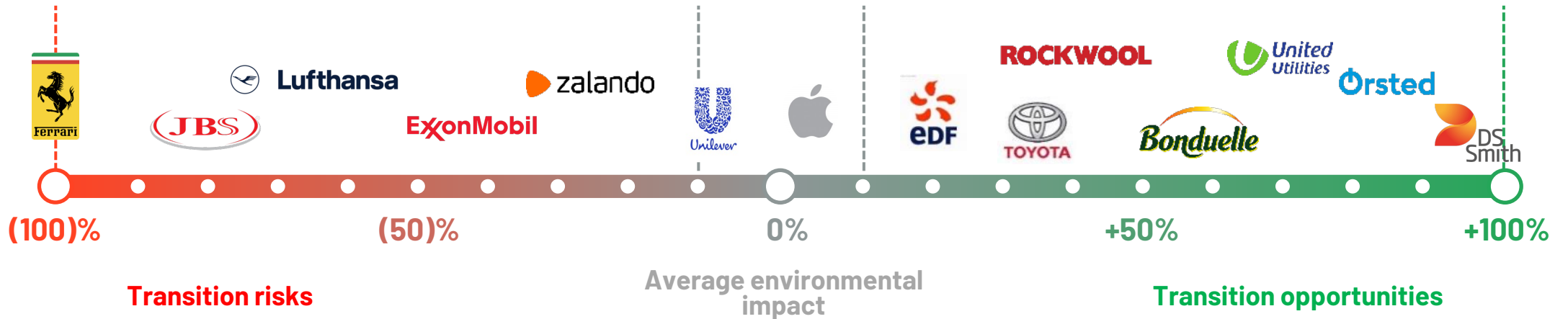
Main drivers of biodiversity loss are captured





Not covered : invasive non-native species

The NEC supports investment strategy by providing discriminating cross-sector analysis

"To what extent is a product, service, company, portfolio, project contributing to the environmental transition?"



NEC supplements limitations of environmental taxonomies

Differences	EU taxonomy 	NEC approach 
Type of approach	Binary (0 or 1)	Gradient [(100%);+100%]
Sectorial coverage	Partial	Full sectorial coverage
Reference zone	European framework (no consistency with other international taxonomies)	Global framework (the NEC is "a supra-regulatory" common language)
Completion	Partial , lengthy process	Holistic : climate, biodiversity & resources
Working method/independence	Political compromise	Scientific compromise

3,5%

of CAC40 activities are taxonomy-aligned ⁽¹⁾

An environmental compass to overcome traditional metrics' limits



**IMPACT-BASED
LIFE CYCLE ANALYSIS**



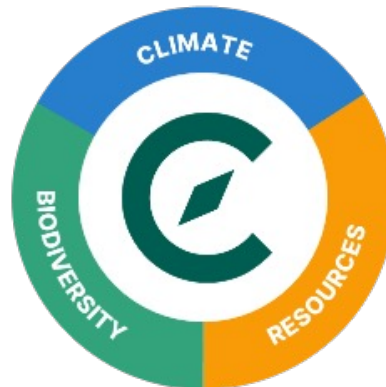
HOLISTIC



GRANULAR



TRANSPARENT



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The NEC efficiently supports several use cases

Implement smart investment strategies – **DECISION** metric

Use as a guidance in Due diligence process, definition of investible universe



Gain in **REPORTING** clarity and transparency

Support global environmental strategy by measuring performance, setting goals and providing transparency



Build **INDEX** solutions

Discriminate more efficiently companies' environmental performance to support design of environmental indices



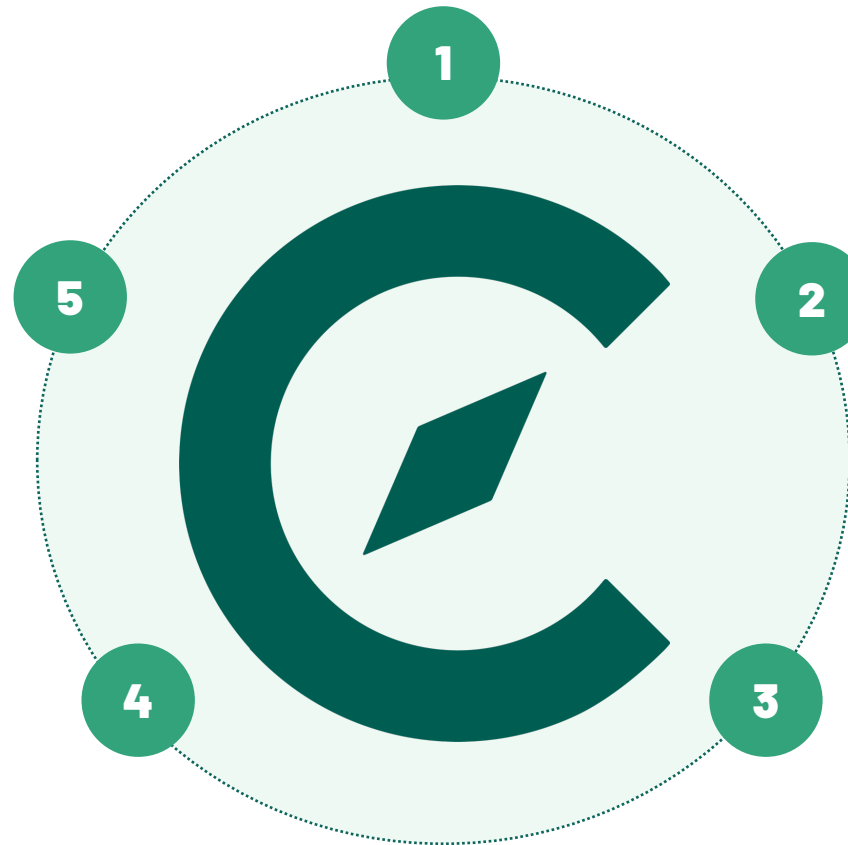
Demonstrate **COMPLIANCE** and achieve certification

Document process and targets for SFDR Article 8-9 funds, base sustainable investment definition on NEC positive performance thresholds



ENGAGE and support

Objectify companies' engagement based on a detailed understanding of the environmental contribution of a company's activities



1- Implement smart sustainable investment strategies

ASSET MANAGERS

A **selection criteria** to define **investible universe**

A tool to **objectify** an investment decision in a due diligence phase



Anne-Claire Abadie, Portfolio Manager - Eco Solutions funds

We have been using the NEC metric since 2017 and use it as a criterion for stock analysis and selection within **our investment process** to define the strategies of our **"environmental" thematic funds**.

Since 2019, we have been using the NEC as a **true decision-making tool for our investments**. In the pre-investment phase, the NEC score embodies the key messages of our environmental analyses in **a robust metric**.



Julie Olivier, ESG Responsible for direct and impact management

Depending on the funds' strategy:

Compulsory 'selection' criteria

Optional criteria

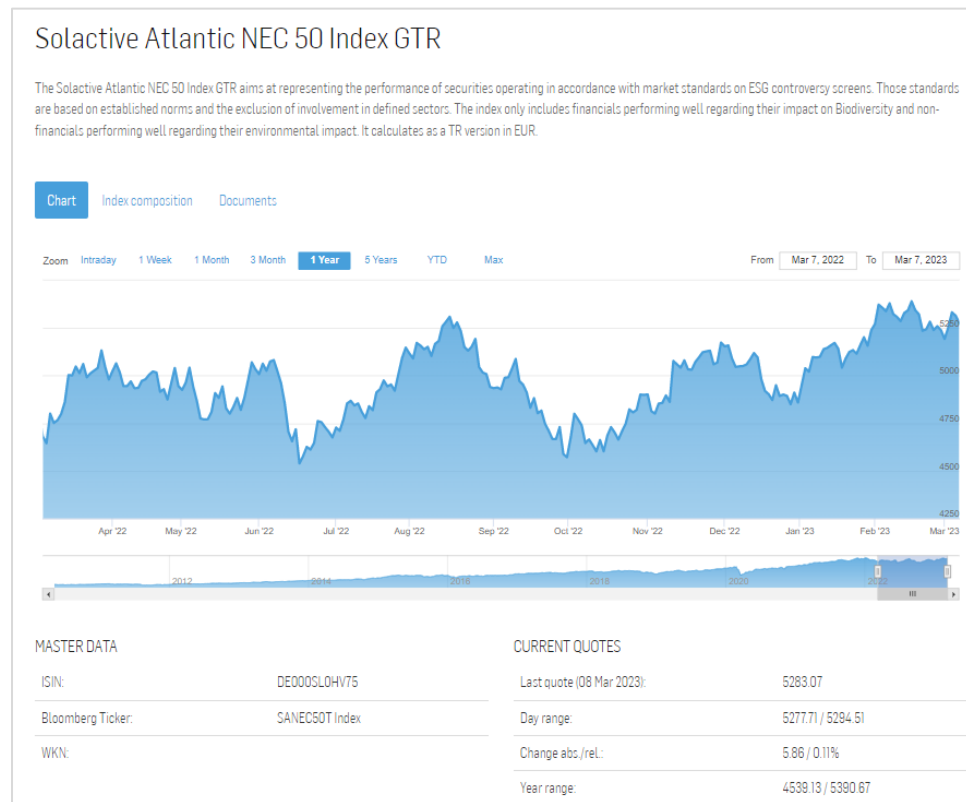
Benchmarking

Exclusion criteria

2- Build index solutions

INDEX PROVIDERS

Creation of the **green index** – Solactive Atlantic NEC 50



3- Engage & support

ASSET MANAGERS

Define a **common language**, between investors and corporates

Behind a NEC scores: learnings and insights about how an issuer could progress

How to use the NEC?

- To calculate a company's NEC score allows analysts **to delve into the reality of its business model** and better understand its impacts.
- This knowledge is useful to **establish a dialogue** with the companies' management teams about the relevance of their environmental strategies, about their products and services and **their contribution to the environmental transition.**

Challenging an issuer's strategy

Setting progress trajectories

4- Demonstrate compliance & achieve certification

ASSET MANAGER

Define a **sustainable investment criteria** - SFDR

 **sycamore
am**



Anne-Claire Imperiale,
Head of Sustainability

We use the NEC for our definition of a sustainable investment as defined by the SFDR regulation.

To measure **the positive environmental contribution**, we use a NEC score $\geq +10\%$ as a selection criterion for each component of the funds concerned.

 **SWEN**
Capital Partners



Renaud Serre-Lapergue,
ESG Multi-Strategy Manager

The NEC is one of the metrics we use **to measure the level of contribution to an environmental objective**. In this respect, the NEC is key to the deployment of our vehicles classified in articles 8 and 9.

For the NEC, we have established **a minimum contribution score at +10%**.

How to use the NEC?

Use the NEC as a criteria to **define the environmental positive contribution of a sustainable investment**.

5- Gain in reporting clarity and transparency

ALL FINANCIAL ACTORS

Demonstrate your environmental commitment to your stakeholders



The NEC metric is the only one that gives us a comprehensive view of the environmental impact of our investments, as it takes into account all environmental issues (climate, biodiversity, waste management, etc.).

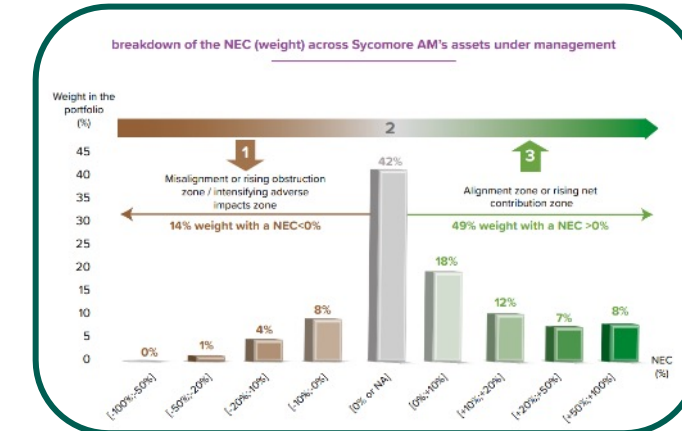
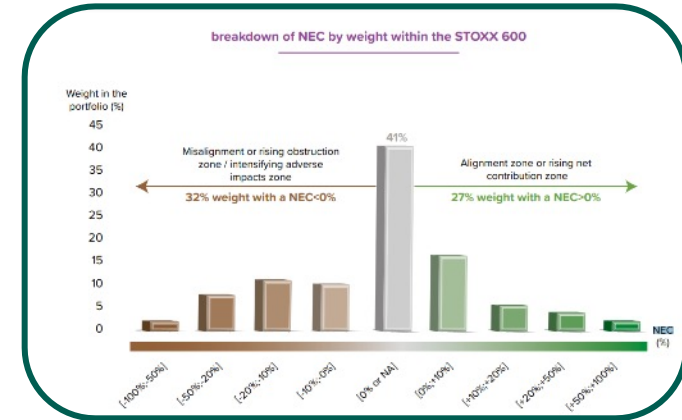
How to use the NEC?

- The NEC metric is easy to read : a score from **-100%** to **+100%**, it enables a simple communication of your results to your different stakeholders.



BNP Paribas Cardif uses the NEC to improve its understanding of the environmental impact of its investments. (2019)

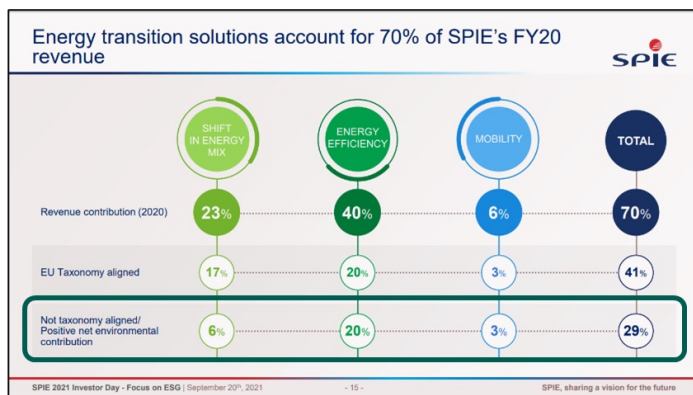
We achieve a combined NEC of **+11%**, above the sector average (**0%**), which reflects the quality of the integration of environmental analysis into the investment process. (2020)



Also supporting corporates' sustainable strategies

REPORTING

SPIE Staff 48,000
Turnover €10bn



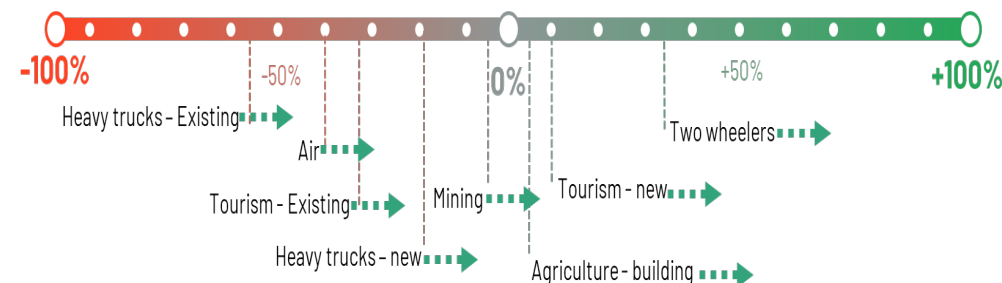
NEC

Using the NEC as **a supplement of the EU taxonomy**: providing granular information about their sustainable activities, beyond the limited official alignment criteria.

STRATEGY



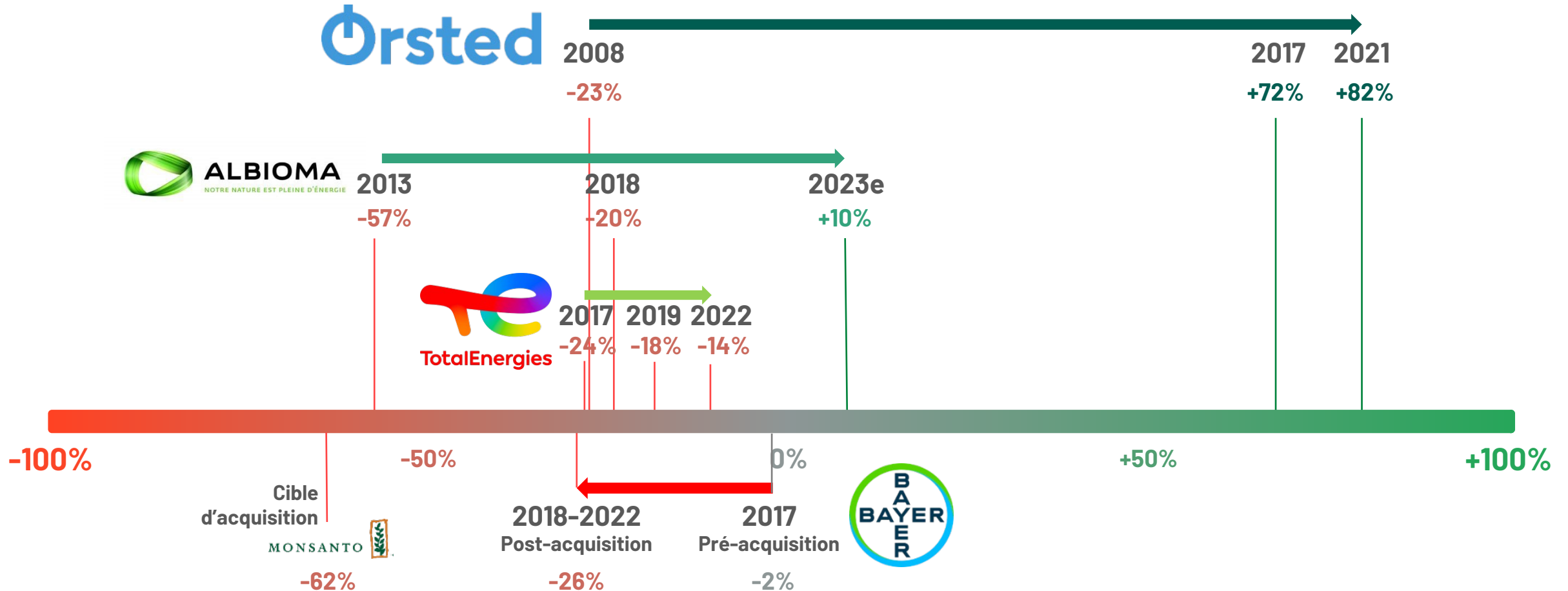
Staff 125,000
Turnover €29bn



Using the NEC as a key tool at the service of long-term strategies: evaluate the **environmental performance of all strategic options** (innovation, R&D, diversification, product optimisation, ...), to **facilitate decision-making**.

Can be used dynamically to track progress

- When used on a yearly basis, the NEC enables to **quantify changes in business models**: direction and speed.
- Using companies' CAPEX data, it can also be used to carry out **forward-looking analysis**



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...delivering an upgraded NEC metric (1.1)

Environmental assessment methodologies are “living” tools which need to be continuously taken care of.

24 months of intensive design and tests leading to a launch in Q1 2024:

1- **UPDATE** => Complete **underlying data-sources review** => 250+ data-sources

2- **UPGRADE** => **improvement** of the 15 existing frameworks

3- **EXTEND** => Addition of **2 sectoral frameworks** => “Finance” & “Healthcare and Pharma”

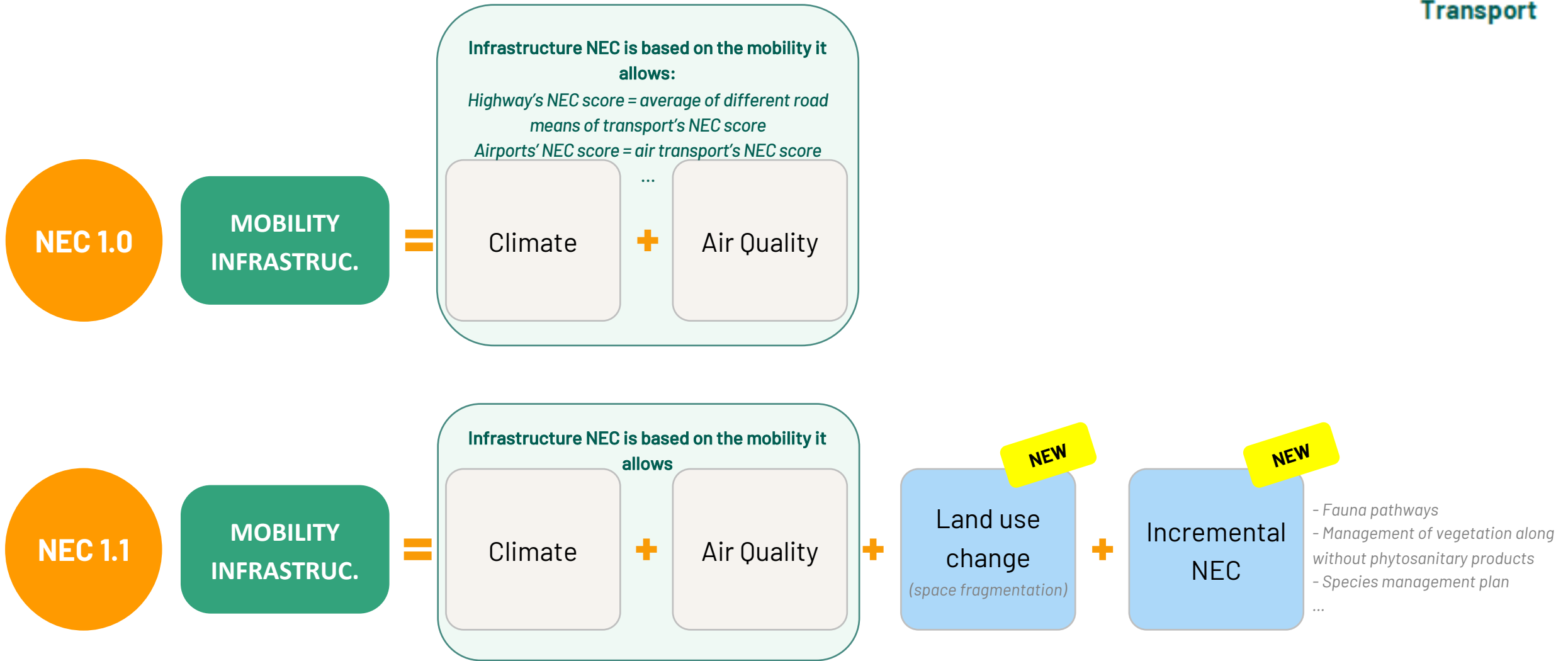
UPGRADE – improvement of the 15 existing frameworks

- **Increased discrimination power**, measured as the share of non-null NEC: circa +30%*
- **Enlarged scope of frameworks**: district heating, air conditioning, concentrated solar power, thermal solar, telecommunications, semi-conductors, blockchain, hydrogen production technologies, methanization feedstocks, new textile fibers, several building types and many new product categories
- **Better quantitative integration of biodiversity**, e.g. via land use, eutrophication, water stress, air quality, ecotoxicity, resource depletion... leading to:
 - Finer assessment for transport infrastructures, electric and hybrid vehicles, ...
 - More cautious assessment of nature-based solutions, such as biofuels or biomass heat and power

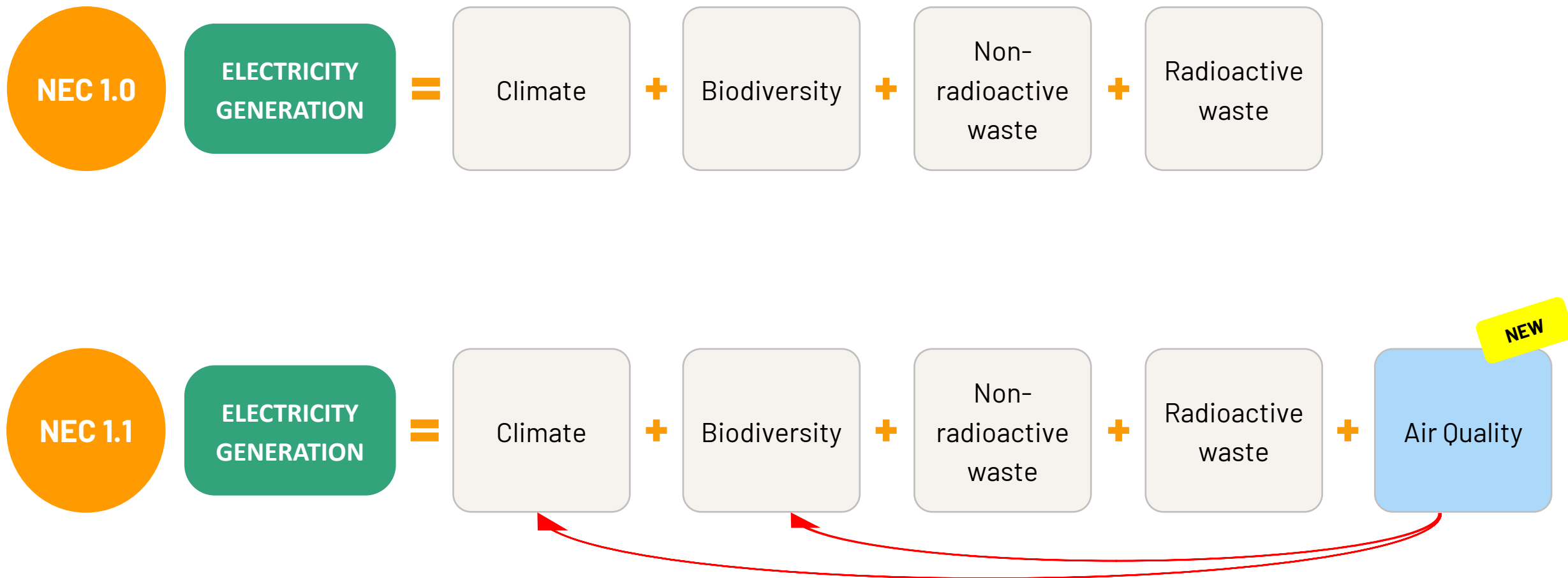
UPGRADE – eg. better integration of biodiversity topics



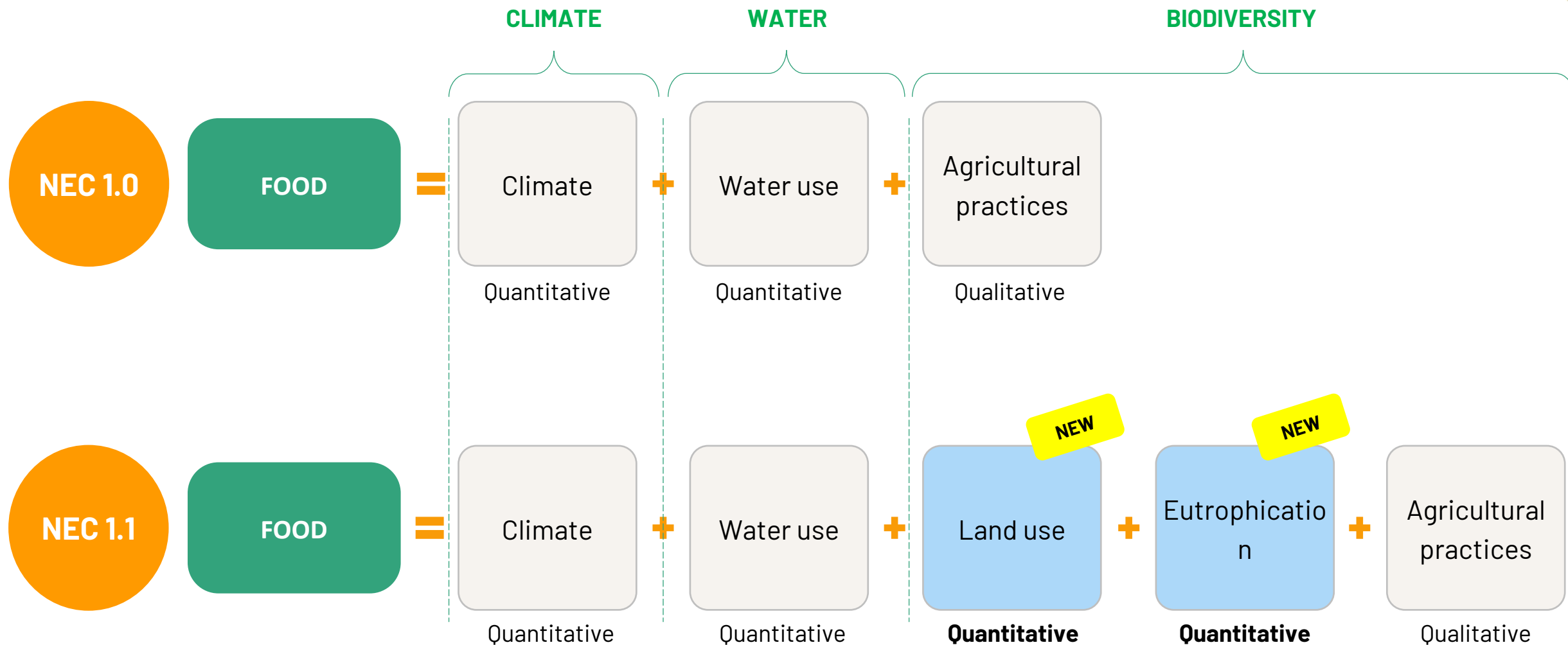
Mobility & Transport



UPGRADE – eg. fine-tuned materiality analysis



UPGRADE – eg. better quantitative analysis



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Scope Activities

4 activities related to finance are covered in this framework:

Lending

NACE code: K64

- Retail banking
- Corporate banking

Example of companies:

- La Banque Postale
- BNP Paribas,
- Goldman Sachs

Investing

NACE code: K65

- Asset management
- Asset owner
- Pension funds

Example of companies:

- Blackrock
- Amundi
- Sycomore AM

Insuring

NACE codes: K64, K66

- Non-life insurance
- Life insurance
- Reinsurer

Example of companies:

- AXA
- Allianz
- Munich RE

Sovereign

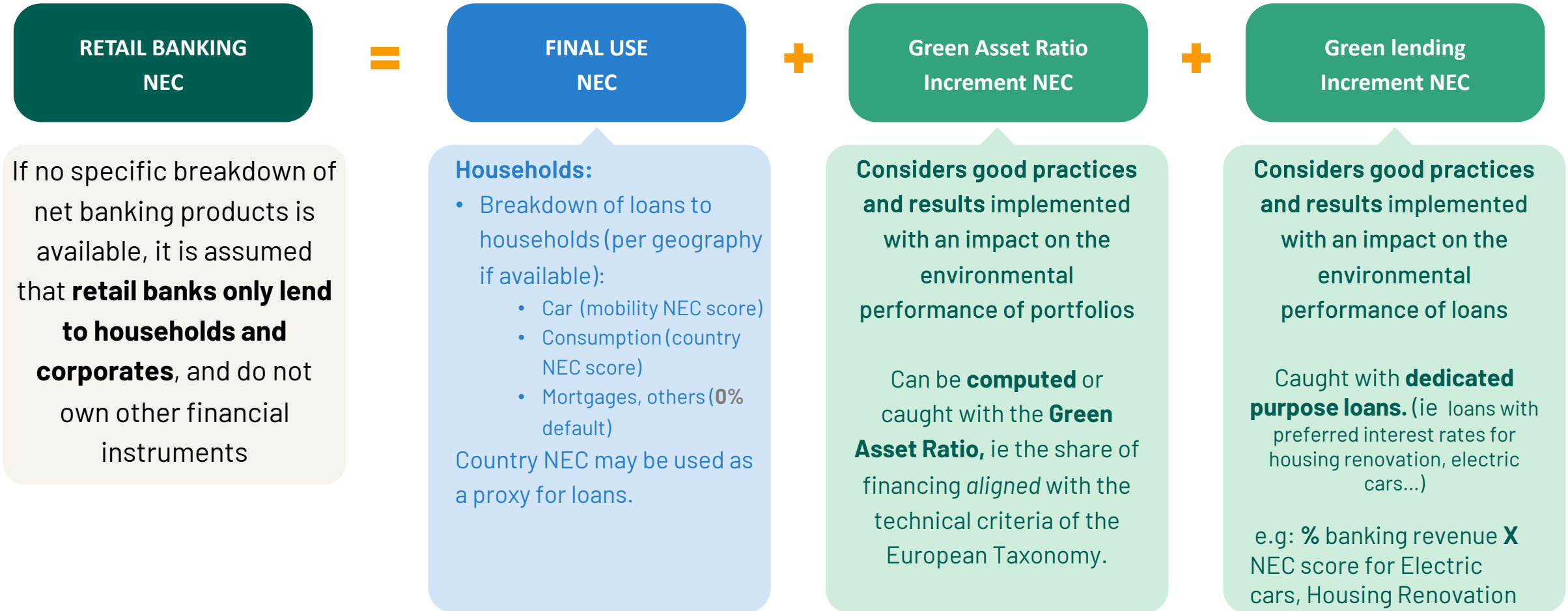
NACE code: 084

- Sovereign bonds

Example:

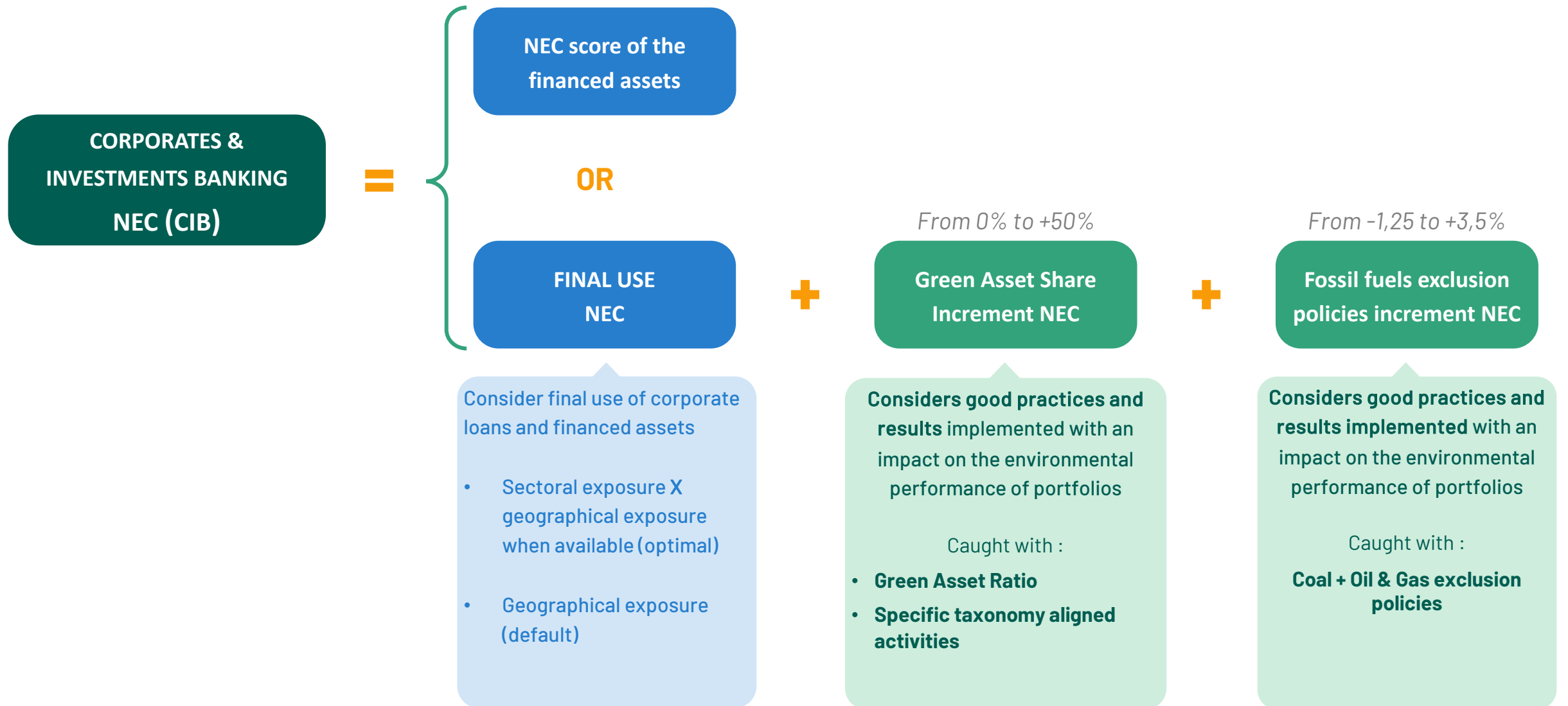
- U.S. government bond

Framework's equations *Lending – Retail banking*

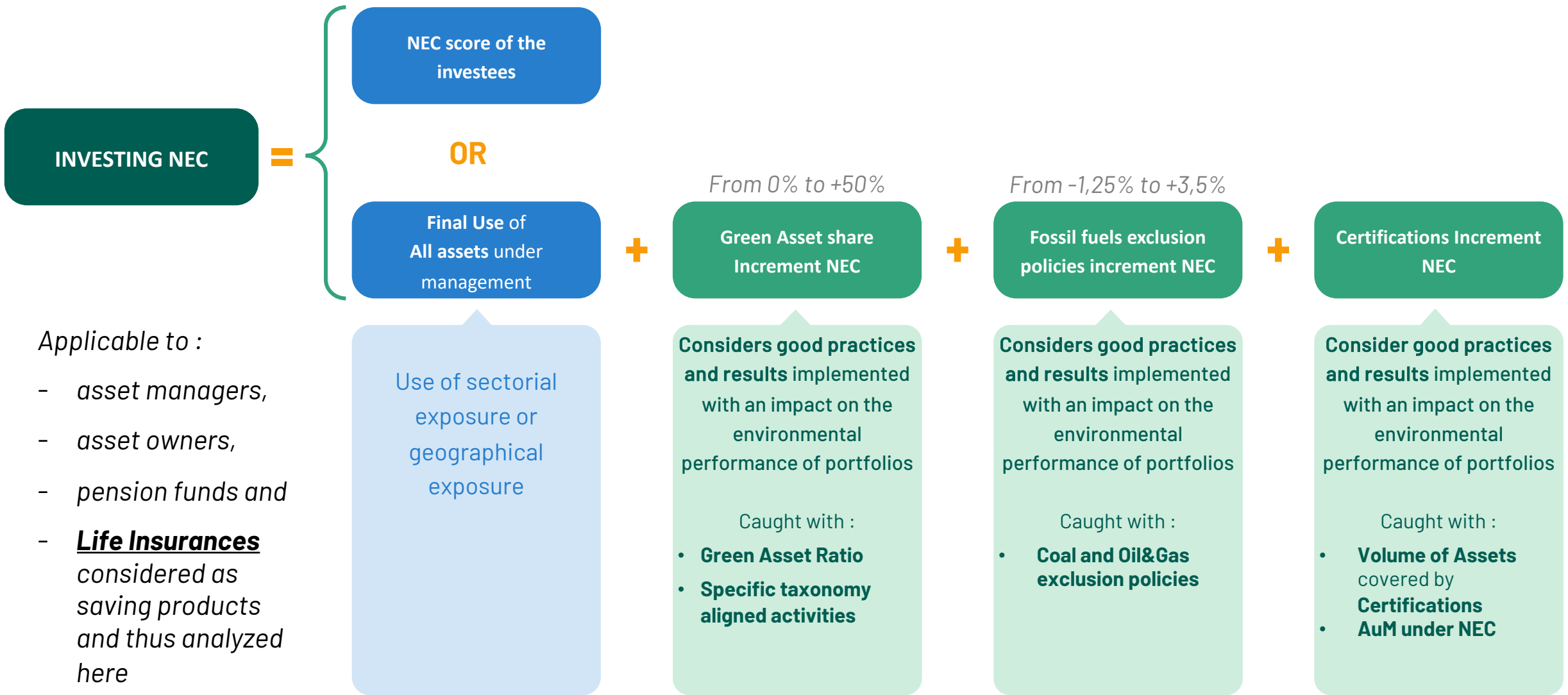


Small & Medium size Enterprises (SME) are analyzed with corporate and investment banking (CIB) equation.

Framework's equations *Lending – Corporate & Investment Banking (CIB)*



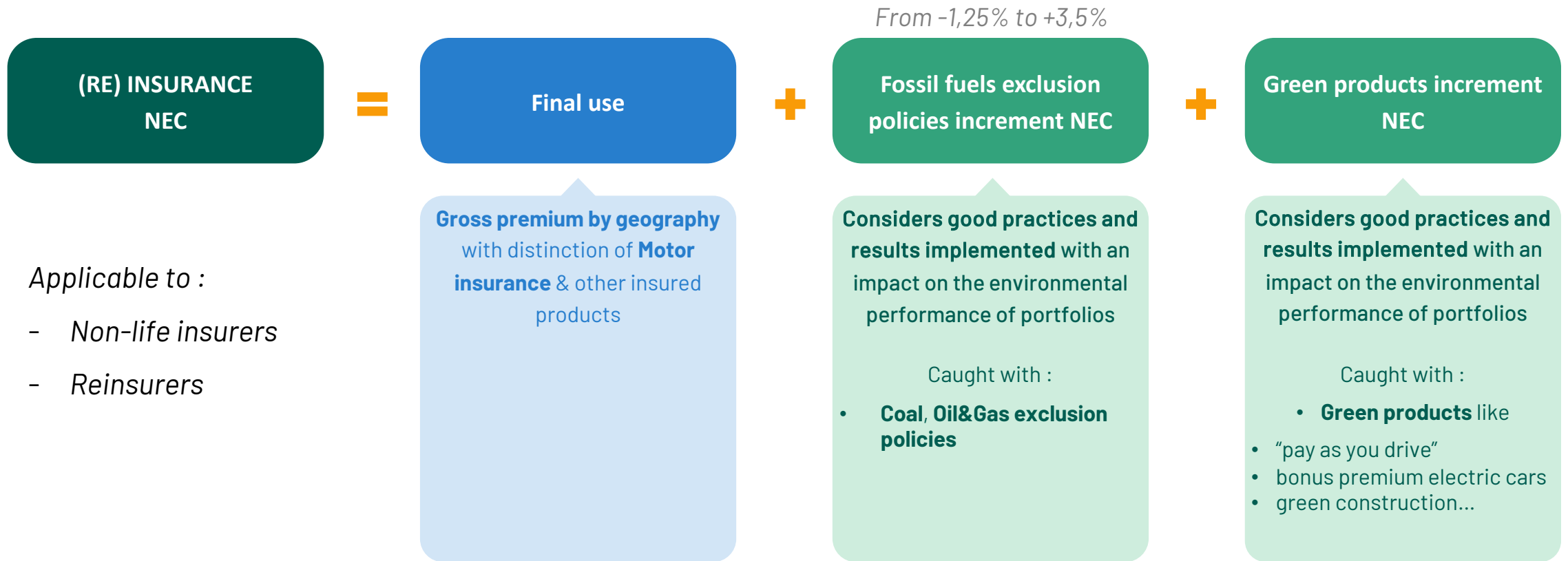
Framework's equations Investing



Applicable to :

- asset managers,
- asset owners,
- pension funds and
- **Life Insurances** considered as saving products and thus analyzed here

Framework's equations *Insuring*



Framework's equations *Sovereign*

SOVEREIGN INVESTING
NEC

=

Final Use of
Sovereign bonds

Allows to evaluate Sovereign
Products and National
Economic Activities

Final use estimated with
country NEC

Sovereign Methodology – Construction



Each point represents a country

Functionality

The functionality of an economy is to provide prosperity, captured thanks to the HDI

Ecosolution

{HDI = 1 ; Ecological footprint = 1 planet}

Indicator

Distance to the ecosolution

0% NEC

Average distance of points to the ecosolution point, weighted by nominal GDP

Sovereign Methodology – Results scores

The model leads to the following Country NEC values for **countries** and aggregated per **region** and per **income level**.

These scores may be used in the calculation of **Lending** when no sectorial breakdown of the activity is given and for **personal loans** (out of auto or renovation loans).

These scores are also used in **Investing Activities** and investments in **Sovereign Bonds**.

Country*	Country NEC
Switzerland	+11%
Italy	+10%
Spain	+10%
France	+9%
Germany	+9%
Japan	+9%
Brazil	+8%
China	+5%
South Africa	+1%
India	-1%
United States	-13%
Qatar	-33%

Region	Region NEC
South America	+9%
Central America & Caribbean	+7%
EU-27	+7%
Other Europe	+5%
Asia Pacific	+4%
Middle East & Central Asia	+2%
Africa	-3%
North America	-12%

Income level	Income level NEC
Upper middle	6%
Lower middle	1%
High	-2%
Low	-14%

Activity	Million USD	Final Use	Green Asset Share	FF policies	Increment	NEC Score	Comments
Investing: Life gross premium revenues Asset under management	11 592 revenues 101 600 AuM	- Geography of sovereign bonds (36%) - Geography of Real Estate Investments (5%) - Rest of AuM = 0% NEC -1,8% NEC	- Calculation of Renewable energy + real estate certification NEC scores +2,6% NEC	- Coal : +0,58% NEC - O&G: -0,9% NEC	No certification	+0,8% NEC	
Insuring: Property and casualty + Health Gross premium revenues	28 261	- Geographical breakdown of gross premium Compute with % of motor insurance -0,1% NEC	N/A	- Coal : +0,22% NEC - O&G: -0,6% NEC	No green products	-0,5% NEC	Inclusion of Health segment (reported with Life)
Corporate solutions	5737	-0,1% NEC		-0,4% NEC			Considered as Insuring
Total						-0,2% NEC	

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THANK YOU

NEC

www.nec-initiative.com
linkedin.com/company/nec-initiative
hello@nec-initiative.org

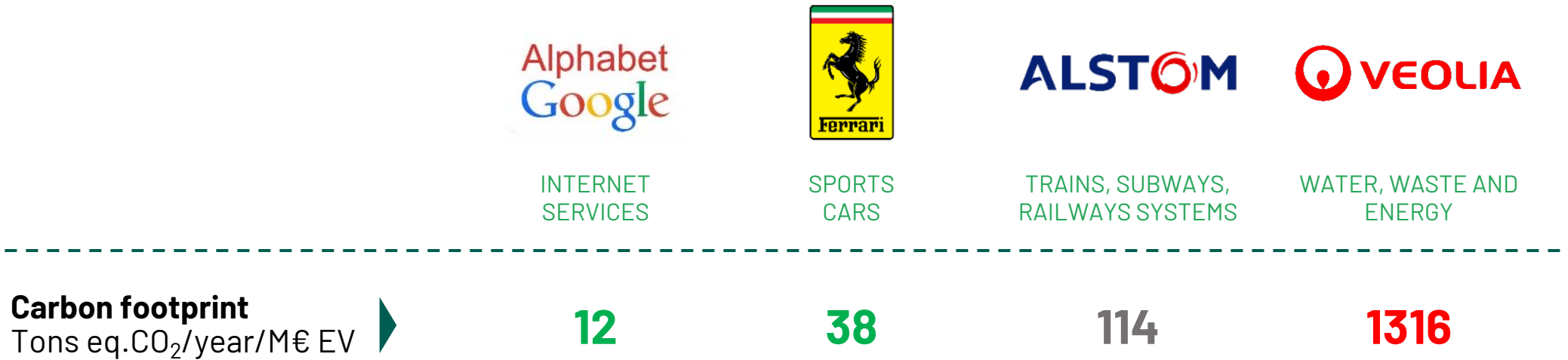




Appendices

Some very commonly used climate metrics are biased

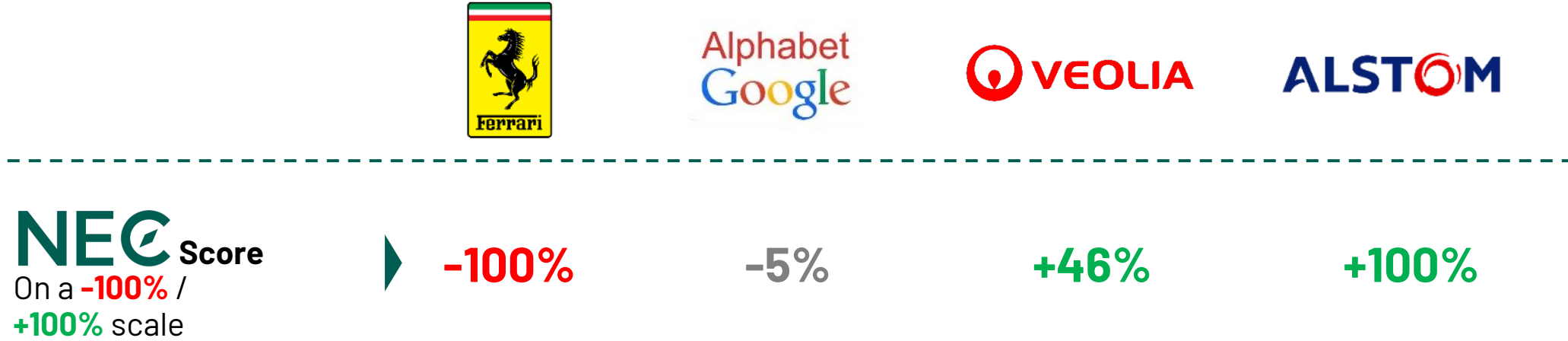
Carbon footprints, when aggregated in portfolios, have failed to support green investing as well as effective decarbonization strategies.



Providing relevant results...

The NEC compares **physical impacts** with **physical functional units** (m² for buildings, passenger.kilometer for mobility, kWh for electricity, etc).

It avoids financial biases.



NEC Score
On a -100% / +100% scale



-100%

-5%

+46%

+100%