

Climate Change Policy

BACKGROUND

Clients of Avaron Asset Management AS (hereafter “Avaron”) entrust our firm to steward their assets on an ongoing basis. Scientific evidence suggests that human behavior is causing global warming with detrimental consequences. Rapidly changing climate represents an urgent threat to habitats, societies, and economies around the world. Meeting the challenge of climate change requires international cooperation and the much-welcomed Paris Agreement, signed in 2015, commits almost all countries to keeping global warming below 2°C this century (compared to pre-industrial levels), and to strive to limit the increase to 1.5°C. Since then, several countries have locked-in climate targets and laws, with the European Union setting an ambition to become a net-zero economy by 2050 and implementing its EU Sustainable Finance Action Plan to align European regulation with a climate neutral economy.

Investors are exposed to climate change risks and opportunities and have an important role to play in both facilitating the transition to a low-carbon economy and managing the climate risks within their portfolios. Given the scale and speed of the transition that is required, even an orderly transition will impact how businesses operate now and in the future. This transition risk alongside the physical risks and liability risk is one of three channels through which climate change affects financial market participants.

OUR RESPONSE

As a fundamental research-driven bottom-up stock picker with long-term investment horizon, we believe climate change represents a systemic risk to the economy, society and environment, and we want to consider the risks and opportunities this presents to our investment portfolios. Climate change is an ESG focus area for us, and we are convinced that we can contribute to progress in this area. Therefore, **we have set a long-term commitment for our core Emerging Europe ex-Russia listed equity strategy to have net-zero emission investments by 2050 and to achieve 50% portfolio carbon footprint reduction by 2030 from 2020 level.** This covers Avaron’s open-ended Emerging Europe listed equity funds as well as segregated accounts with the same asset class focus that Avaron manages on behalf of institutional clients that account for over 90% of our AUM. We are working with the asset owners of our segregated accounts to understand their own approaches to net zero targets.

Our core product category is geographically and asset class wise notably constrained, resulting in a narrow investment universe, thus affecting the range of approaches we can implement to deliver on the net-zero commitment. Being bottom-up stock pickers, we rely primarily on the transformation of Emerging Europe issuers towards net-zero and use three company business model centric approaches: exclusion, engagement and integration.

Exclusions

We do not invest in companies that generate more than 20% of revenues from the extraction of any kind of coal including lignite. From 2030 this revenue threshold shall be 10%.

We do not invest in companies that generate more than 20% of revenues from coal-based energy production. Exclusion is not applicable to companies that have set net-zero ambitions in accordance with Science-Based Targets Initiative (SBTi) Net-Zero Standard that implies full phaseout of coal-based generation by 2030.

Engagement

We see engagement as the most effective way to ensure that Emerging Europe issuers gradually commit to net-zero and implement appropriate transition plans. Our objective is to encourage companies to integrate climate risks and opportunities in their long-term business models and enable them to thrive in the transition to a low carbon economy. We engage directly and collaboratively with our peers. We advocate for investee companies to commit to SBTi and report against recognized frameworks such as CDP and TCFD.

Integration

We have integrated climate change related indicators (emissions disclosure and intensity, reduction targets and trends, net-zero transition ambition, environmental risk management system and certifications), to our internal ESG rating system of issuers that directly feeds into company valuation. Our investment team monitors these metrics and engages with the investee companies if necessary. This ensures that climate risks and opportunities are considered in the investment process.

REPORTING

We aim to report to our clients, and other stakeholders, on how we progress with regards to the commitment and targets set for our portfolios. The reporting frequency will be at least annually.

On portfolio level we shall report the following climate change related indicators:

- Carbon footprint

$$\frac{\sum_i^i \left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope 1,2 and 3 GHG emissions}_i \right)}{\text{current value of all investments (€M)}}$$
- GHG intensity

$$\sum_i^i \left(\frac{\text{current value of investment}_i}{\text{current value of all investments (€M)}} \times \frac{\text{investee company's Scope 1,2 and 3 GHG emissions}_i}{\text{investee company's €M revenue}_i} \right)$$
- Share of investments in companies active in fossil fuel sector
- Share of investments in companies with SBTi targets

GOVERNANCE

The climate change policy is set by Avaron Responsible Investment Committee and is subject to periodic review.

Valid from:	22 December 2022
Approved by:	Management Board of AS Avaron Asset Management