Avaron Emerging Europe Fund
Climate Change Metrics

Our Approach

In 2022 Avaron published the inaugural Climate Change Policy Statement (CCPS) aimed at setting firm wide goals to align our core Emerging Europe listed equity strategy portfolios with Paris Agreement. This entailed committing to strive towards net-zero emission investments by 2050 and to achieve 50% portfolio carbon footprint reduction by 2030 from 2020 level.

Being Emerging Europe long-only bottom-up stock pickers, we rely primarily on the transformation of Emerging Europe issuers towards net-zero to achieve our objectives and use three company business model centric approaches: exclusion, engagement and integration.

Exclusion: We avoid companies generating over 20% of revenues from coal extraction or coal-based energy production, reducing the threshold to 10% by 2030. Exceptions apply to companies with Science-Based Targets Initiative (SBTi)-aligned net-zero plans.

Engagement: Engagement is our key tool for driving net-zero commitments and transition plans. We work directly and collaboratively to encourage companies to integrate climate risks, adopt SBTi targets, become members of Net Zero Banking Alliance, and report via frameworks like CDP.

Integration: Climate metrics such as emissions, reduction targets, and net-zero ambition are embedded in our internal ESG ratings, directly influencing company valuations. These metrics are actively monitored, ensuring climate risks and opportunities are taken into account within our investment process.

Key metrics outlined in the CCPS that we use to track our progress towards net-zero ambition:

1. Portfolio carbon footprint

$$\frac{\sum_n^i \left(\frac{current\ value\ of\ investment_i}{investee\ company's\ enterprise\ value_i} \times investee\ company's\ Scope\ 1{,}2\ and\ 3\ GHG\ emissions_i \right)}{current\ value\ of\ all\ investments\ (€M)}$$

2. Weighted average carbon intensity

$$\sum_n^i \left(\frac{current\ value\ of\ investment_i}{current\ value\ of\ all\ investments\ (€M)} \times \frac{investee\ company's\ Scope\ 1{,}2\ and\ 3\ GHG\ emissions_i}{investee\ company's\ €M\ revenue_i} \right)$$

3. Share of investments in companies active in fossil fuel sector

4. Share of investments in companies with SBTi targets or NZBA members

Portolio Metrics	2020	2023	Change
Share of investments with Scope 1+2 emissions data	93.4%	90.7%	-2.6pp
Share of investments with Scope 3 emissions data	44.8%	46.1%	+1.3pp
Owned Scope 1+2 emissions, CO_2e tonnes	17,246	12,724	-26%
Owned Scope 3 emissions, CO_2e tonnes	50,996	45,769	-10%
Portfolio carbon footprint, CO_2e tonnes per € million invested*	394.7	285.7	-28%
Portfolio carbon intensity, CO_2e tonnes per million € sales revenue*	554.5	250.0	-55%
Share of total portfolio invested in companies active in fossil fuel sector	18.3%	15.7%	-+2.6pp
Share of total portfolio invested in companies with SBTi commitments and/or targets, or that are NZBA members	0.0%	18.9%	+18.9pp

** Calculated using Scope 1+2 emissions data due to limited availability of Scope 3 emissions data.*

2023 Commentary

Between 2020 and 2023, our portfolio has demonstrated measurable progress in emissions reduction, improved climate-related data transparency, and increased alignment with global climate initiatives. These improvements reflect our commitment to integrating climate risks and opportunities into our investment decisions.

Portfolio Coverage and Data Transparency: The share of investments reporting Scope 1+2 emissions remains robust at 90.7% (-2.6pp), demonstrating sustained transparency across our portfolio. While the slight decline, due to shifts in portfolio composition, indicates room for improvement, our push for enhanced reporting has resulted in a modest increase in Scope 3 emissions data coverage, rising to 46.1% (+1.3pp). This reflects progress in addressing a more challenging data category, as Scope 3 emissions are often underreported or inconsistently measured by companies.

Carbon Metrics: Significant progress was made in reducing the portfolio's emissions, with owned Scope 1+2 emissions decreasing by 26% to 12,724 and Scope emissions by 10% to 45,769 CO_2e tonnes. The portfolio carbon footprint (Scope 1+2 CO_2e tonnes per € million invested) dropped by 28% while carbon intensity (Scope 1+2 CO_2e tonnes per million € sales revenue) declined sharply by 55%. These reductions primarily highlight the visible impact of emissions reductions by portfolio companies.

Fossil Fuel Exposure: The share of investments in fossil fuel-intensive companies fell 15.7% (-2.6pp), demonstrating advancement toward decarbonization and reduced exposure to high-carbon industries. This decline aligns with our broader strategy to mitigate long-term carbon risks and align with global net-zero pathways. Moreover, all the fossil fuel companies we hold have already set either near-term emission reduction targets or have committed to net-zero ambition by 2050.

Emission Reduction Targets: A notable improvement is the share of total portfolio invested in companies with Science-Based Targets (SBTi) commitments or Net Zero Banking Alliance membership, which grew from 0.0% in 2020 to 18.9% in 2023. Furthermore, 77.8% of the total portfolio at the end of 2023 comprised companies that have set either near-term or long-term emission reduction targets. This demonstrates significant progress over the past years among regional issuers and contributes to our efforts in aligning the portfolio with global climate goals.

Engagement Activity: A long-term thematic engagement was launched focused on encouraging portfolio companies to establish carbon emission reduction targets aligned with the Paris Agreement. This initiative involved 21 companies and addressed key areas, including emissions disclosure, science-based mid-term (2030) reduction targets, and long-term (2050) net-zero ambitions. These efforts align with Avaron's overarching climate change related goals. The success of this engagement is directly tied to the transition efforts of our portfolio companies, emphasizing the importance of sustained dialogue and collaboration.