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	2024	Change, yoy	Change vs. 2020
Share of investments with Scope 1+2 emissions data	93.4%	90.7%	98.5%	7.8pp	5.1pp
Share of investments with Scope 3 emissions data	44.8%	46.1%	94.7%	+48.6pp	+49.9pp
Owned Scope 1+2 emissions, CO_2e tonnes	17,246	12,695	13,864	9%	-20%
Owned Scope 3 emissions, CO_2e tonnes	50,996	45,764	64,719	41%	27%
Portfolio carbon footprint, CO_2e tonnes per € million invested*	394.7	285.1	265.3	-7%	-33%
Portfolio carbon intensity, CO_2e tonnes per million € sales revenue*	554.5	249.4	319.8	28%	-42%
Share of total portfolio invested in companies active in fossil fuel sector	18.3%	15.7%	11.1%	-4.6pp	-7.2pp
Share of total portfolio invested in companies with SBTi commitments and/or targets, or that are NZBA members	0.0%	18.9%	25.6%	+6.7pp	+25.6pp

** Calculated using Scope 1+2 emissions data due incomplete and uneven of Scope 3 emissions data. The inclusion of Scope 3 data is planned for the year 2025.*

2024 Commentary

Between 2020 and 2024, our portfolio has demonstrated measurable progress in emissions reduction, improved climate-related data transparency, and increased alignment with global climate initiatives. These developments reflect our continuing commitment to integrating climate risks and opportunities into investment decisions and supporting the transition efforts of companies across the region.

Portfolio Coverage and Data Transparency: Data coverage strengthened further in 2024. The share of investments reporting Scope 1 & 2 emissions increased from 90.7% in 2023 to 98.5%, the highest level achieved to date. Availability of Scope 3 emissions data improved even more significantly, rising from 46.1% to 94.7%, marking a decisive shift among regional issuers toward full value-chain disclosure. Investments without emissions data are now minimal: 1.5% lack Scope 1+2 data and 5.3% lack Scope 3 data, down from 9.3% and 53.9% respectively in 2023. Transparency is no longer a structural constraint for portfolio-level climate assessment. That said, material inconsistencies persist in Scope 3 data, as many companies are not yet able to report their full value-chain emissions. For banks, financed-emissions disclosure has improved but remains incomplete and uneven.

Carbon Metrics: Owned Scope 1+2 emissions increased from 12,695 tCO_2e to 13,864 tCO_2e (+9%). This rise was driven almost entirely by Titan Cement International, whose portfolio weight increased from 2.9% to 4.9% during the year. Titan remains by far the most carbon-intensive company in the portfolio, accounting for 60% of total owned Scope 1+2 emissions in 2024, up from 50% in 2023. Titan's operational profile is extremely emissions-heavy: its carbon intensity stands at 4,269 tCO_2e per €m revenue, which is more than an order of magnitude higher than the portfolio average. The increase in owned emissions therefore reflects a position-size effect rather than deteriorating emissions performance elsewhere. Owned Scope 3 emissions rose from 45,764 tCO_2e to 64,719 tCO_2e (+41%), driven primarily by the improvement in Scope 3 disclosure coverage—from 46.1% to 94.7%—rather than underlying changes in company emissions.

Despite higher absolute emissions, the portfolio carbon footprint (tCO_2e per €mil invested) declined by 7%, reflecting portfolio rebalancing and emissions improvements across several holdings. In contrast, portfolio carbon intensity (tCO_2e per €mil revenue) increased by 28%. This divergence is directly attributable to Titan's higher weight. Given Titan's extremely high emissions per unit of revenue (4,269 tCO_2e/€mil) its increased representation in the portfolio significantly amplifies its impact on intensity-based metrics, even as footprint-based metrics improve at the aggregate level.

A key reason we tolerate Titan's heavy emissions profile is the credibility of its transition strategy. When adding Titan to the portfolio, an essential consideration was its proactive approach to decarbonisation. The company has now set comprehensive, SBTi-validated near-term (2030) emission reduction targets, alongside a 2050 net-zero commitment, placing it among the most advanced transition actors in the region. Titan operates in a sector that is inherently hard-to-abate, yet it is taking concrete, science-aligned steps toward deep emissions reductions. This alignment with a Paris-consistent pathway justifies its inclusion despite its currently high intensity.

Fossil Fuel Exposure: The share of the portfolio invested in companies active in the fossil fuel sector continued to decline, falling from 15.7% in 2023 to 11.1% in 2024. All fossil-fuel-exposed holdings have established either near-term emissions reduction targets or long-term net-zero ambitions, consistent with the portfolio's transition objectives.

Emission Reduction Targets: The share of the portfolio invested in companies with SBTi commitments or NZBA membership rose from 18.9% to 25.6% in 2024. Together with the substantial improvement in emissions data coverage, this strengthens our ability to evaluate Paris-alignment and track the transition progress of portfolio companies.

Engagement Activity: Engagement efforts in 2024 remained focused on strengthening emissions disclosure and driving the adoption of credible climate targets. Several climate-related engagements launched in 2023 continued throughout the year, enabling deeper dialogue and more meaningful progress with key portfolio companies. The near-universal availability of Scope 3 data and the growing number of companies committing to science-based targets demonstrate the cumulative impact of these multi-year efforts. We also acted as lead investor in the CDP Non-Disclosure Campaign, targeting a select group of portfolio companies that still lacked adequate emissions reporting. This initiative reinforced our expectations around transparency and contributed to accelerated improvements in disclosure quality among the companies engaged. Across these activities, discussions consistently centred on improving full value-chain emissions reporting, securing validated 2030 reduction targets, and encouraging credible long-term net-zero strategies. Collectively, the progress achieved through engagement strengthens the portfolio's alignment with global decarbonisation pathways and ensures that climate considerations remain firmly embedded in our investment and stewardship processes.