



# **Financed Emissions Report 2023**

## **Latin American Portfolios**

## Introduction

At Credicorp Capital Asset Management, we adopt a responsible and sustainable investment approach to meet our fiduciary duty to our clients to minimize potential losses derived from risks associated with ESG issues or to take advantage of related opportunities in the companies or projects we invest in. In this way, we accompany our clients in the search for superior returns on their investments. Our Responsible and Sustainable Investment Policy formalizes this commitment and identifies the prioritized strategies: Exclusions, ESG Integration, and Active Ownership.

Our approach also aims to contribute to climate action through our investment management practice to address the climate change challenge and its adverse economic, environmental, and social effects. In 2021, we expressed our support for the Paris Agreement and the Task Force on Climate-Related Financial Disclosure (TCFD) recommendations, committing to improving our management and reporting of the climate-related risks, opportunities, and impacts in our investment portfolios. Within this reporting framework, measuring greenhouse gas (GHG) emissions related to our investments, also called financed emissions, is a fundamental dimension.

## Financed Emissions

Financed emissions are indirect GHG emissions associated with investments or financing activities. Financed GHG emissions are the main component of carbon emissions from financial institutions (scope 3, category 15)<sup>1</sup>. Therefore, the relevance of its measurement.

## About this Pilot

In 2024, we began measuring financed emissions to understand the status of our portfolios, their contribution, and exposure to potential transition risks associated with climate change. This exercise also allows us to identify measures to manage these risks through engagement with the issuers we invest in.

This report presents the methodology and results of this pilot that focused on five investment portfolios in the Latin American listed assets strategies: three fixed income and two equity funds. The composition of the portfolios is from the end of December 2023 with GHG emissions and financial data from 2022, mainly, or from 2021 if this is the last GHG emissions information available<sup>2</sup>. The total assets under management (AUMs) of the portfolios are USD 724 million, representing 7.3% of Credicorp Capital Asset Management's total AUMs at the end of 2023. The list of funds considered in this measurement is available in the Annex.

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<sup>1</sup> "Technical Guidance for Calculating Scope 2 Emissions", Greenhouse Gas Protocol (2013).

<sup>2</sup> For each issuer, GHG emissions and financial information should be from the same year, depending on the availability of GHG data.



## Methodology

We use the methodology developed by The Partnership for Carbon Accounting Financials (PCAF)<sup>3</sup>, recognized as the global standard for financial institutions. Its level of adoption is supported and aligned with global frameworks and initiatives such as TCFD, CDP (formerly Carbon Disclosure Project), and the Science Based Targets Initiative.

The data sources were the following:

- **GHG Emission Information (scope 1 and scope 2<sup>4</sup>):** we mainly use information from external providers (MSCI ESG Research, reported and estimated information, and CDP, reported information). In some cases, we use information from Sustainability Reports, Annual Reports, or issuers' websites or through direct queries via email.
- **Financial Information:** we mainly use information from external providers MSCI ESG Research, Bloomberg, Refinitiv, and Factset), and in some cases, direct information from issuers' financial statements.

## Calculated metrics

We calculated the following indicators suggested by PCAF:

1. **Absolute emissions:** it is a metric for understanding the climate impact of loans and investments and setting a baseline for climate action, understood as the total GHG emissions of an asset class or portfolio measured in tons of CO<sub>2</sub> equivalent (tCO<sub>2</sub>eq).
2. **Portfolio intensity:** it is a metric to compare the emission intensities of different portfolios (or parts of portfolios) among each other per monetary unit, calculated as absolute emissions divided by the loan or investment volume, expressed as tons of CO<sub>2</sub> equivalent per million dollars invested (tCO<sub>2</sub>eq/USD MM).
3. **Weighted average carbon intensity (WACI):** a metric to understand exposure to emission-intensive companies, expressed as tons of CO<sub>2</sub> equivalent per million dollars in company's revenues (tCO<sub>2</sub>eq/USD MM).
4. **Average PCAF Score:** measures the quality of GHG emissions data used in the measurement. The data quality score is specific to each asset class and categorized from 1 to 5. A lower PCAF score represents better data quality.

## Universe of issuers

The 5 prioritized portfolios invest in a total of 212 corporate issuers. Of these, 172 were considered in the measurement due to data availability. This represents 84% of the AUMs of the aggregated 5 portfolios. Table 1 shows the coverage by GHG emissions data quality category, as measured by the PCAF Score.

<sup>3</sup> Available at <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>

<sup>4</sup> Scope 1 are direct GHG emissions that occur from sources owned or controlled by the reporting company. Scope 2 are indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 2 emissions physically occur at the facility where the electricity, steam, heating, or cooling is generated. PCAF (2022).

Table 1. Portfolio coverage by average PCAF Score

	Data quality	N° Issuers	% of AUMs
<b>Score 1</b>	Verified reported emissions	5	3%
<b>Score 2</b>	Reported and unverified emissions	151	76%
<b>Score 3</b>	Estimated emissions based on company's production data	0	0%
<b>Score 4<sup>5</sup></b>	Estimated emissions base don company's revenue data	16	5%
<b>Total Coverage</b>		<b>172</b>	<b>84%</b>
<b>Issuers without GHG information</b>		<b>40</b>	<b>16%</b>
<b>Total</b>		<b>212</b>	<b>100%</b>

## Results

GHG absolute financed emissions through the 5 portfolios included in this measurement were 338,996 tCO<sub>2</sub>eq in 2023. This translates into 559 tCO<sub>2</sub>eq per million dollars invested. Likewise, the exposure of our portfolios to GHG-intensive companies is expressed in 428 tCO<sub>2</sub>eq / USD MM of revenues of the issuer's companies. The results differentiated by type of strategy, corporate fixed income and listed equity, are presented in Table 2.

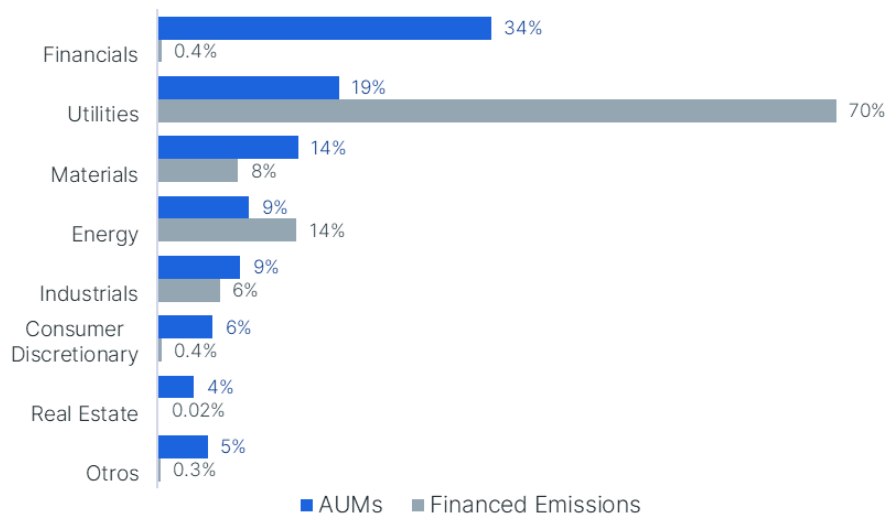
Table 2. Measurement results by Fixed Income, Listed Equity and Aggregate strategy

Indicators	Fixed Income	Listed Equity	Aggregate
AUMs included in the measurement (USD MM)	470	136	606
Absolute Financed Emissions (tCO <sub>2</sub> eq)	314,948	24,047	338,996
Emissions Intensity by AUMs (tCO <sub>2</sub> eq / USD MM)	670	177	559
WACI (tCO <sub>2</sub> eq / USD MM)	473	234	428
Average PCAF Score	2.14	2.16	2.16
Coverage (% of AUMs of Latin American portfolios)	80%	99%	84%

To identify material sectors contributing to our portfolios financed emissions, we show the distribution of AUMs and financed emissions for the Fixed Income and Listed Equity strategies by sector (Graphs 1 and 2).

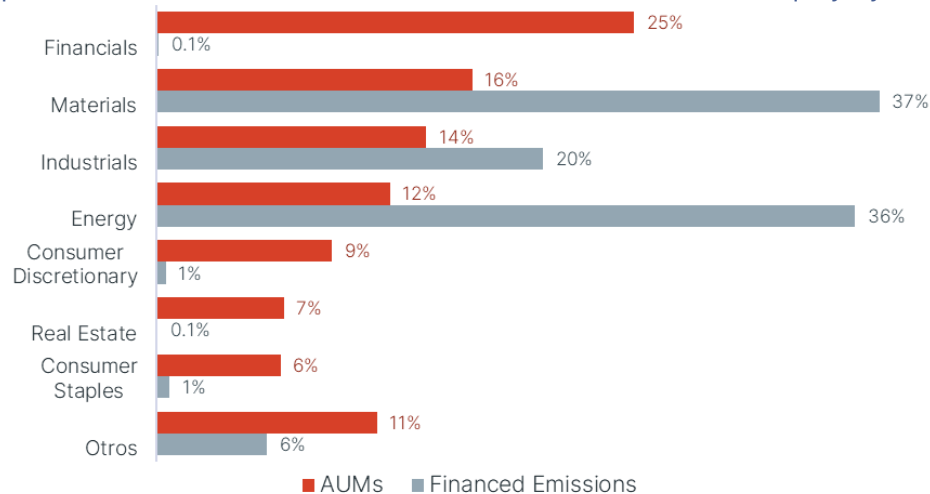
<sup>5</sup> All estimated GHG emissions were considered from an external provider.

Graph 1. Distribution of AUMs and Financed Emissions of Fixed Income by Sector



In the fixed income strategy, more than 50% of AUMs is concentrated in sectors such as Utilities (19%), Materials (14%), Energy (9%) and Industrials (9%). These sectors are the main contributors to financed emissions. The main contribution comes from the Utilities sector and is equivalent to 70% of the strategy's financed emissions.

Graph 2. Distribution of AUMs and Financed Emissions of Listed Equity by Sector



In the equity strategy, more than 40% of the AUM is distributed in GHG-intensive sectors, such as Materials (16%), Industrials (14%) and Energy (12%). Financed emissions come mainly from these sectors, led by the Materials and Energy industries.

Although our fixed income and equity strategies have a relevant percentage of their AUMs in financial institutions (34% and 25%, respectively), this sector is not a major contributor to financed emissions, as the methodology considers Scope 1 and Scope 2 GHG emissions (which are less significant for the Financials sector).

## Reflexions

### Challenges of measurement

This measurement was carried out with information mainly collected from external providers to automate the calculation considering the number of companies that are part of the portfolios. The providers mostly use information reported by the companies (79% of the AUMs of the selected portfolios) and only a smaller part has been estimated by the providers (5%). Therefore, the validity of these results depends on the quality of this information, which can have different levels of sophistication, as only 5% of the AUMs of the portfolios have verified emissions.

In some cases, the GHG emissions data for some issuers differs between that reported to the data providers and the companies' reports, despite being from the same year. In other cases, there is no information reported for 2022, so information is estimated for 2022 or reported for 2021. Some issuers have consolidated reports at the parent company level that do not distinguish between subsidiaries, which makes it difficult to identify the share of financed emissions corresponding to our investment positions. Some companies do not report the coverage of their operations considered in the measurement of their GHG emissions and they could be underestimating their emissions.

In some cases, GHG emissions information reported by companies is generally published with a lag compared to financial information and information on the composition of our portfolios. There is a lag between the time GHG emissions information is disclosed by companies, the time it is included in the providers' databases, and the most updated composition of the investment portfolios. This makes it difficult to automate the process of measuring portfolio financed emissions and the relevance of the information for management purposes in real time.

### Next steps

This initial exercise has allowed us to identify the exposure of our portfolios to GHG-intensive companies for the internal evaluation of risks and opportunities in our investments. It is the first step in developing a tool and systematized process for measuring these indicators, which we plan to replicate each year and progressively expand the coverage to our local portfolios.

Our management efforts will continue to focus on engagement activities, mainly collaborative, with high GHG emission intensity issuers with two objectives:

1. Promote greater and better reporting of GHG emissions metrics.
2. Promote the most intensive companies' management and reduction of their emissions or intensity by setting science-based targets or other measures to be defined on a case-by-case basis.

With this, we will continue to advance in our commitment to identify, measure, and manage the climate-related risks and opportunities in our investments.

## Annex

### PCAF GHG Metrics

#### 1. Absolute financed emissions

$$\text{Absolute financed emissions (tCO}_2\text{eq)} = \sum_i \text{Attribution factor}_i \times \text{Emissions}_i$$

For listed companies:

$$\text{Attribution factor}_i = \frac{\text{Outstanding amount}_i}{\text{Enterprise Value Including Cash (EVIC)}_i}$$

For bonds to private companies:

$$\text{Attribution factor}_i = \frac{\text{Outstanding amount}_i}{(\text{Total equity} + \text{Debt})_i}$$

Where:

- Emissions are the total Scope 1 + Scope 2 GHG emissions of company  $i$  in tCO<sub>2</sub>eq.
- The attribution factor will depend on whether company  $i$  is listed or not.
- The outstanding amount  $i$  is the total value of the investment in company  $i$  either stocks or bonds.
- The EVIC is the value of company  $i$  including cash.

#### 2. Emissions intensity:

$$\text{Emissions intensity} \left( \frac{\text{tCO}_2 \text{ eq}}{\text{USD MM}} \right) = \frac{\sum_i \text{Financed Emissions}_i}{\sum_i \text{Outstanding amount}_i}$$

#### 3. Weighted Average Carbon Intensity (WACI):

$$\text{WACI} \left( \frac{\text{tCO}_2 \text{ eq}}{\text{USD MM}} \right) = \sum_n^i \left( \frac{\text{Outstanding amount}_i}{\text{Outstanding amount portfolio}} \times \frac{\text{GHG Scope 1 + Scope 2}_i}{\text{Revenues}_i} \right)$$

### Portfolios included in the measurement

Fixed Income	Equity
Credicorp Capital Latam Corporate Debt Fund	Credicorp Capital Innovacion Latam
Credicorp Capital Latam Investment Grade Fund	Credicorp Capital Latam Equity Fund
Credicorp Capital Latam Short Duration Fund	

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