

# GIB AM Sustainable World Corporate Bond Fund Annual Climate Report 2023





# 1. Introduction

Gulf International Bank (UK) Limited, trades under the name GIB Asset Management (GIB AM). GIB AM is the manager of the GIB AM Sustainable World Corporate Bond Fund\* (the Fund). The Fund seeks to achieve income and capital growth through investment in a portfolio of global corporate bonds issued by companies that the Investment Manager believes have the potential to create a positive impact on global sustainability\*\*.

This report provides an overview of the GIB AM Sustainable World Corporate Bond Fund's impact on climate change, as well as the Fund's exposure to climate-related risks, consistent with the recommendations of the **Taskforce on Climate-related Financial Disclosures (TCFD)**, and this product report aligns with GIB AM's entity level climate-related financial disclosure.

TCFD has developed climate related financial disclosures to help investors assess the climate related risks and opportunities within their investments.

This report is designed to provide investors with information on the emissions generated by the companies that the GIB AM Sustainable World Corporate Bond Fund invests in. The

report is based on the recommendations of the TCFD as per the rules and guidance issued by our regulator, the Financial Conduct Authority (FCA). This report covers the reporting year 01 January 2023 – 31 December 2023 and metrics have been calculated as at 31 December 2023.

For the purpose of comparison, we calculate the same metrics for the Bloomberg Global Aggregate Investment Grade Corporate incl. High Yield and EM Custom Index (USD Hedged), (the Benchmark) the Fund's performance benchmark.

## Coverage

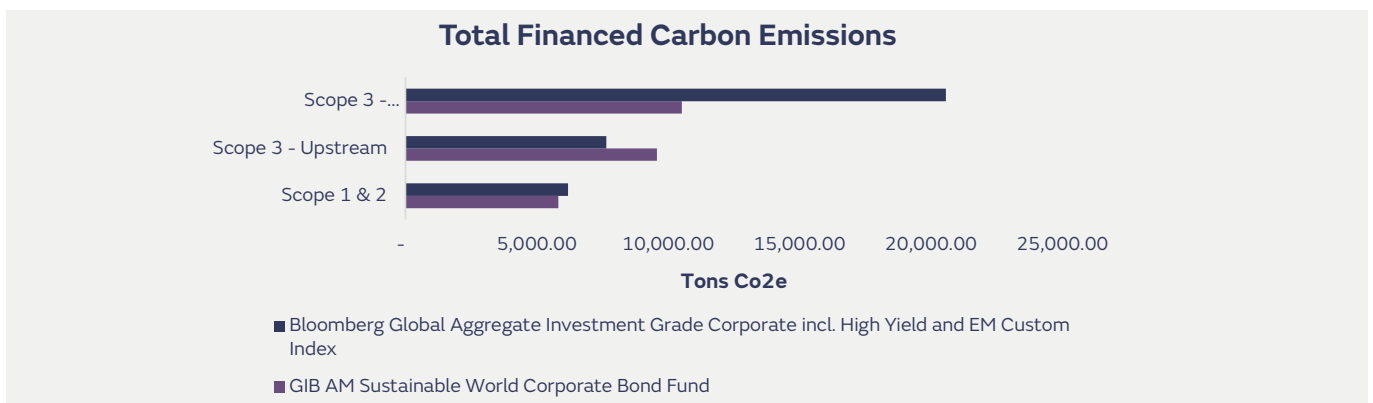
We use data on carbon emissions provided by MSCI. MSCI aggregates company-reported emissions where available, but also relies on estimations to fill in gaps where that data is not available. Sourcing emissions data is a challenge, as is validating and standardising that data across the investment management industry.

There are no material differences between GIB AM's overarching firmwide approach in respect of climate-related risks and opportunities across the pillars of governance, strategy and risk management and those applied to the Fund. For further information, please see [GIB AM's Climate-Related Financial Disclosure](#).

# 2. Climate-Related Metrics

## Total Financed Carbon Emissions

The Total Financed Carbon Emissions metric is intended to show the climate impact of investments within the Fund compared with those in the Benchmark. They measure the total carbon emissions for which an investor is responsible by their equity ownership, and emissions are allocated to all financiers (EVIC). Emissions are apportioned based on equity ownership (% market capitalisation).



Source: MSCI as at 31 December 2023

Fund Data Coverage: Scope 1&2: 90%, Scope 3: 90%. Benchmark Coverage: Scope 1&2: 82.7%, Scope 3: 82.6%

Where reported data is not available, Scope 1 & 2 carbon emissions are estimated using MSCI's Scope 1 & 2 estimation model. To ensure consistency, MSCI estimates emissions if a company's reporting does not align with the GHG Protocol framework or does not represent emissions across all its geographies and operations. Where reported data is not available, scope 3 emissions are estimated by MSCI using an industry segment specific intensity model. The % coverage represents the % of the holdings in the Fund or Benchmark which are eligible for reporting including equity, bonds, ETFs and sovereigns (real assets, private debt, currency and derivatives are currently not included for the purposes of carbon reporting)

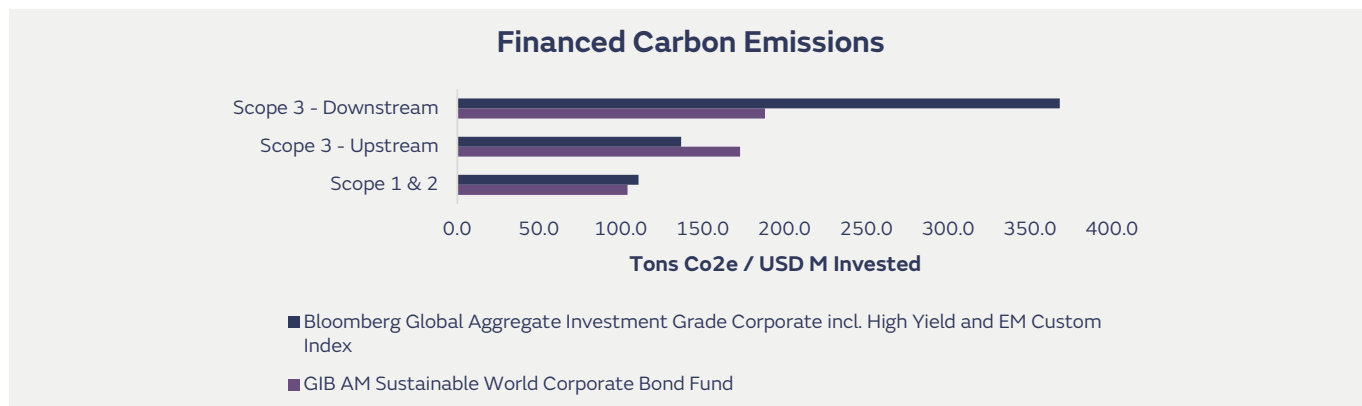
\*A sub-fund of AFP UCITS ICAV

\*\* Investors should be aware there is no guarantee that the Fund will achieve its investment objective.



## Financed Carbon Emissions

The Financed Carbon Emissions metric is intended to help compare the climate impact of the Fund and the Benchmark, normalised by monetary unit invested. It measures the carbon emissions, for which an investor is responsible, per USD million invested, by their equity ownership, and emissions are allocated to all financiers (EVIC) normalised by \$m invested. Emissions are apportioned based on equity ownership (% market capitalisation).



Source: MSCI as at 31 December 2023

Fund Data Coverage: Scope 1&2: 90%, Scope 3: 90%. Benchmark Coverage: Scope 1&2: 82.7%, Scope 3: 82.6%

Where reported data is not available, Scope 1 & 2 carbon emissions are estimated using MSCI's Scope 1 & 2 estimation model. To ensure consistency, MSCI estimates emissions if a company's reporting does not align with the GHG Protocol framework or does not represent emissions across all its geographies and operations. Where reported data is not available, scope 3 emissions are estimated by MSCI using an industry segment specific intensity model. The % coverage represents the % of the holdings in the portfolio or benchmark which are eligible for reporting including equity, bonds, ETFs and sovereigns (real assets, private debt, currency and derivatives are currently not included for the purposes of carbon reporting)





## Weighted Average Carbon Intensity (WACI)

The WACI metric compares the Fund's exposure to carbon intensive companies compared to the Benchmark's exposure. It measures a portfolio's exposure to carbon-intensive companies, defined as the portfolio weighted average of companies' Carbon Intensity (emissions/sales).



Source: MSCI as at 31 December 2023

Fund Data Coverage: Scope 1&2: 95.3%, Scope 3: 95.3%. Benchmark Coverage: Scope 1&2: 91.1%, Scope 3 - upstream: 91% Scope 3 - downstream: 82.6%

\*Bloomberg Global Aggregate Investment Grade Corporate incl. High Yield and EM Custom Index

The above data is for corporate constituents within the Fund only.

Where reported data is not available, Scope 1 & 2 carbon emissions are estimated using MSCI's Scope 1 & 2 estimation model. To ensure consistency, MSCI estimates emissions if a company's reporting does not align with the GHG Protocol framework or does not represent emissions across all its geographies and operations. Where reported data is not available, scope 3 emissions are estimated by MSCI using an industry segment specific intensity model. The % coverage represents the % of the holdings in the Fund or Benchmark which are eligible for reporting including equity, bonds, ETFs and sovereigns (real assets, private debt, currency and derivatives are currently not included for the purposes of carbon reporting)



## Climate Value at Risk (CVaR)

CVaR is designed to provide a forward-looking valuation estimate of a company or fund taking into account the climate related risks and opportunities faced under different climate scenarios. CVaR is comprised of climate impacts through policy risks, physical risks and technological opportunities.

This risk measurement helps to estimate future costs and benefits related to climate change and understand what those future costs and benefits could mean towards the current valuation of securities. The premise of CVaR is to estimate and aggregate costs related to specific climate risks and opportunities.

The MSCI CVaR model projects the net present value of future transition-related expenses and benefits for each company up to the year 2050, as well as the physical costs extending to 2100, under various climate scenarios. These projected financial impacts are then converted into a percentage relative to the company's equity or debt—whichever is applicable—and are subsequently weighted according to the Fund's holdings. It should be noted that the current iteration of the MSCI CVaR model only covers corporate, sovereign bonds and equity asset types, this means that derivatives positions are not covered. In the CVaR module proxies for holdings are not used where securities are not covered.

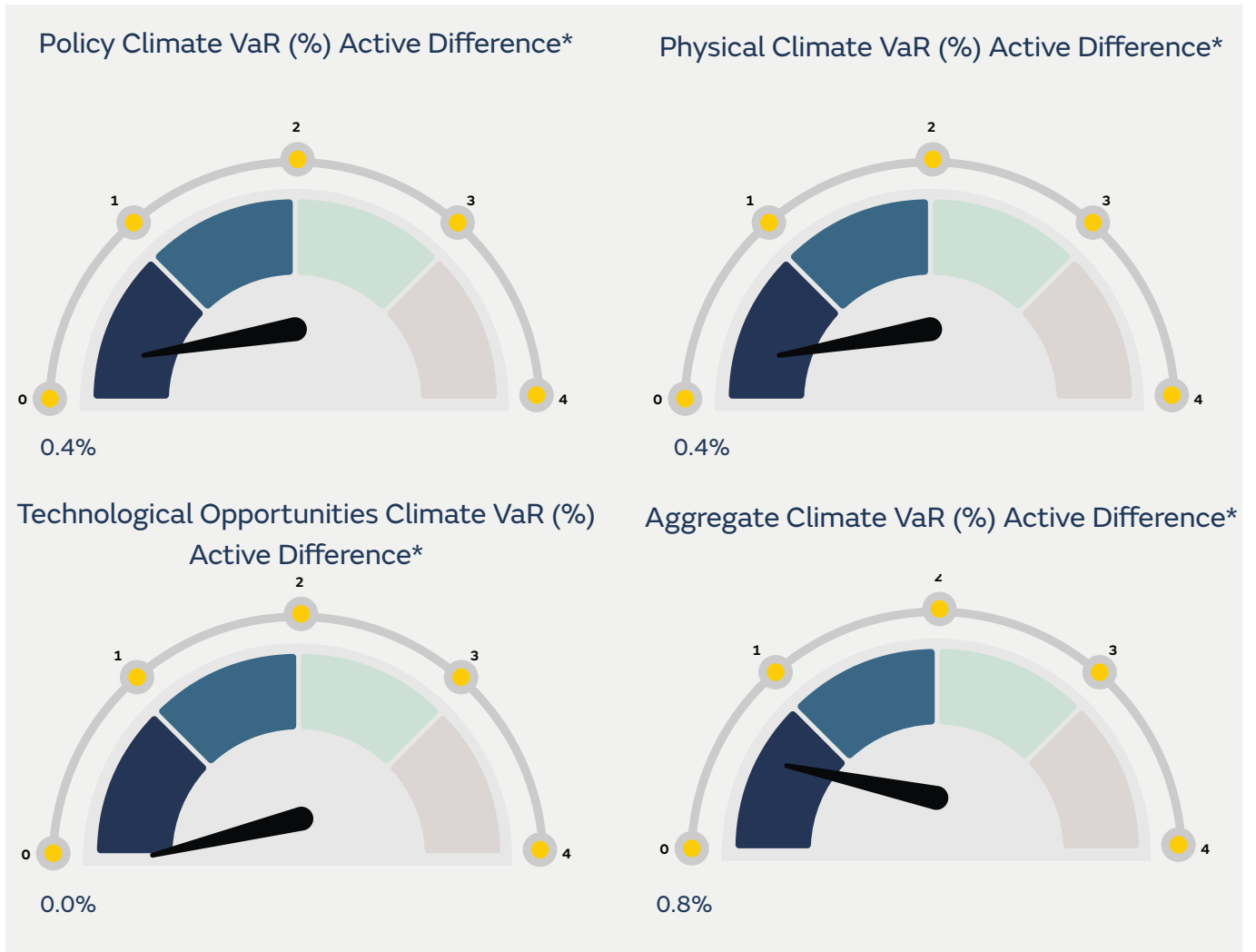
For physical risk, the model provides two methods to estimate the costs borne by a company on an average and aggressive modelling basis. Cost estimations from physical risk are aggregated at Fund level. The “average” physical risk costs are the average of discounted expenses whereas the “aggressive” method considers the worst-case scenario of the discounted costs. In both cases discounted costs are assumed to be normally

distributed. Estimates included in this reporting use the “average” path for the scenario modelling of physical climate risk.

The CVaR module makes a number of assumptions to derive an estimated enterprise value loss caused by climate change. For example, the impact of temperature rise on labour productivity, corporate tax rates, future electricity consumption and cost to decarbonise in various regions, relationship between patents and future green revenues are all based on assumptions. The CVaR solution also assumes that current valuations do not already take into account climate risk. CVaR estimates are used bearing those limitations and assumptions in mind. Additionally, a limitation of the model is that it is complex and relies on a large underlying dataset and intermediate calculations not available to the end user, thus it is not possible to fully validate the model outputs as an end user of the solution.

Further details on the CVaR model can be found [here](#).





According to MSCI's CVaR model, the GIB AM Sustainable World Corporate Bond exhibits a 0.8% lower CVaR compared to the Benchmark\*\* under the NGFS 2°C disorderly scenario as of the end of 2023.

Source: MSCI as at 31 December 2023

The Climate VaR above below relate to the 2°C NGFS Orderly Scenario

Fund Data Coverage: Policy Climate VaR (Scope 1,2,3): 77.8%; Technology Opportunities Climate VaR: 77.8%; Physical Climate VaR: 77%

Benchmark Data Coverage: Policy Climate VaR (Scope 1,2,3): 77.1%; Technology Opportunities Climate VaR: 77.1%; Physical Climate VaR: 75.3%

\*Difference between the Fund and the Benchmark

\*\*Bloomberg Global Aggregate Investment Grade Corporate incl. High Yield and EM Custom Index



### 3. Climate Scenario Analysis

Climate Scenario Analysis refers to a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, for example, scenarios allow an organisation to explore and develop an understanding of how the physical and transition risks of climate change may impact its businesses, strategies, and financial performance over time. Consistent with the rules and guidance issued by our regulator, the FCA, there are three different scenarios used within this disclosure set out below. These are three of the scenarios that have been developed by the Network for Greening the Financial System (NGFS):

Scenario	Scenario Description
NGFS Orderly Transition (2.0°C)	Assumes climate policies are introduced early and become gradually more stringent, reaching global net zero CO2 emissions around 2050 and likely limiting global warming to below 2 degrees Celsius on pre-industrial averages
NGFS Disorderly Transition (2.0°C)	Assumes climate policies are delayed or divergent, requiring sharper emissions reductions achieved at a higher cost and with increased physical risks in order to limit temperature rise to below 2 degrees Celsius on pre-industrial averages
NGFS Hot House World Transition (3.0°C)	Assumes only currently implemented policies are preserved, current commitments are not met and emissions grow until 2080 leading to about 3 °C of warming, with severe physical risks and severe social and economic disruption and failure to limit temperature rise

Scenario ▶	Orderly Transition (2.0°C)		Disorderly Transition (2.0°)		'Hot House World' (3.0°C)	
	GIB AM SWCBF	Benchmark*	GIB AM SWCBF	Benchmark*	GIB AM SWCBF	Benchmark*
Policy Climate VaR (Scope 1,2,3)	-0.2%	-0.9%	-2.2%	-2.6%	-0.1%	-0.7%
Technology Opportunities Climate VaR	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Physical Climate VaR Average	-0.1%	-0.4%	-0.1%	-0.5%	-0.1%	-1.0%
<b>Aggregated Climate VaR</b>	<b>-0.3%</b>	<b>-1.3%</b>	<b>-2.3%</b>	<b>-3.0%</b>	<b>-0.3%</b>	<b>-1.4%</b>

Source: MSCI as at 31 December 2023

Fund Data Coverage: Policy Climate VaR (Scope 1,2,3): 77.8%; Technology Opportunities Climate VaR: 77.8%; Physical Climate VaR: 77%

Benchmark Data Coverage: Policy Climate VaR (Scope 1,2,3): 77.1%; Technology Opportunities Climate VaR: 77.1%; Physical Climate VaR: 75.3%

\*Bloomberg Global Aggregate Investment Grade Corporate incl. High Yield and EM Custom Index





In order to determine if the Fund is concentrated in carbon intensive sectors GIB AM uses the BICS (“Bloomberg Industry Classification Standard”) classifications to map each security to a sector. GIB AM believes that the BICS sectors Energy, Materials, Utilities and certain sub-sectors such as Oil and Gas within Energy are carbon intensive.

In terms of concentration, the Fund is underweight compared to the Benchmark in some carbon intensive BICS sectors such as Energy. The Fund is overweight compared to the Benchmark in Materials and Utilities which are also perceived to be carbon intensive. However at the Fund level it is anticipated that fewer climate-related losses will be incurred compared to the Benchmark, as estimated by the MSCI's CVaR model.

The Fund 's CVaR, which measures the potential impact of climate change on the Fund's value in percentage terms under given climate scenarios, is lower than the Benchmark's CVaR, indicating that the Fund has a lower exposure to climate-related risks. The Fund's CVaR under the NGFS 2°C disorderly scenario is -2.3% while the Benchmark returned -3.0% for the same scenario as at the end of 2023. This means that the Fund's climate related losses are estimated to be less than the Benchmark due to the Fund being underweight in some carbon intensive sectors such as Energy and its subsector Oil and Gas as well as the securities selection within those sectors.

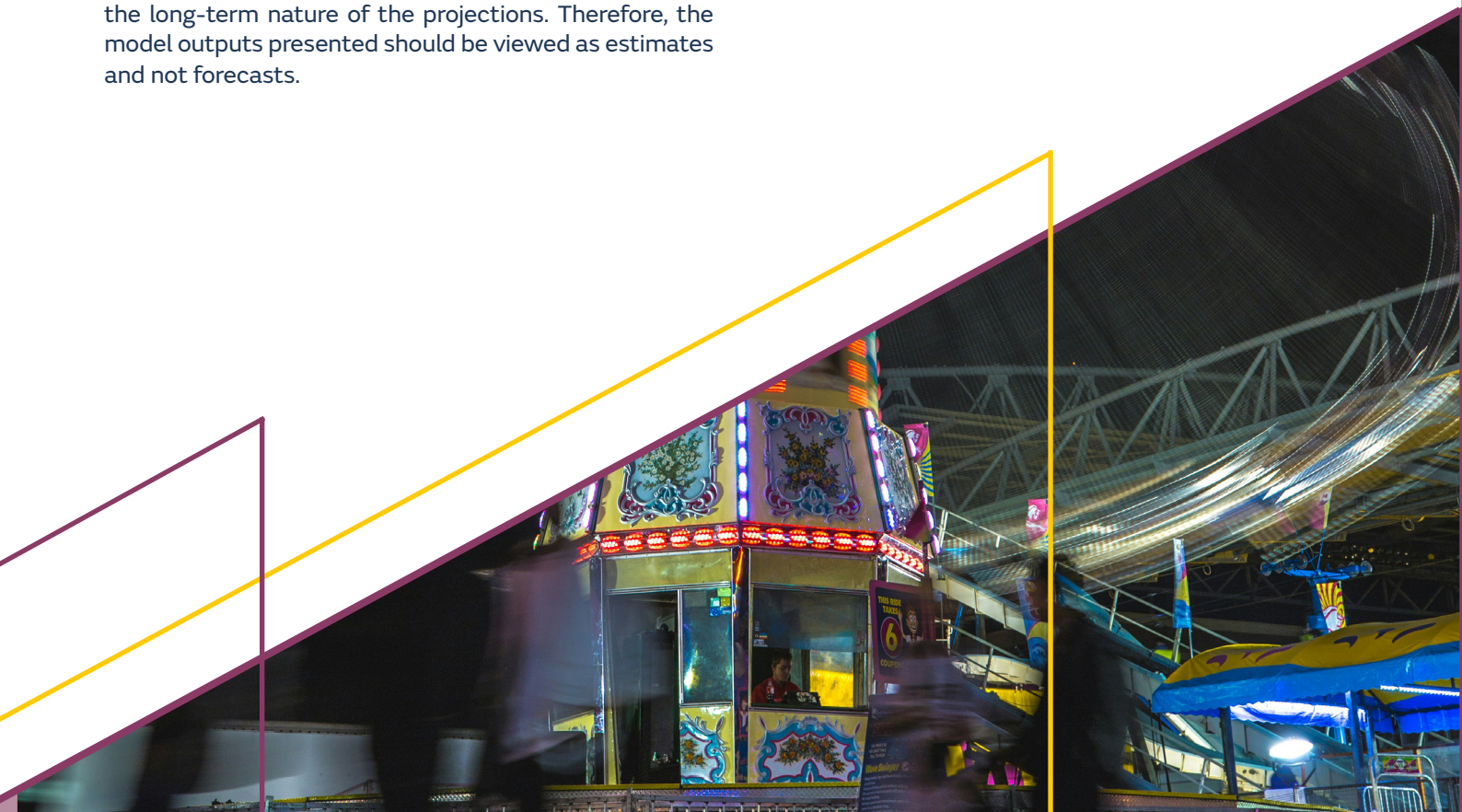
The above climate scenario analysis provides a broad overview and outlines the potential impacts of climate change. However, there are inherent uncertainties due to the long-term nature of the projections. Therefore, the model outputs presented should be viewed as estimates and not forecasts.

## 4. Implied Temperature Rise

Implied Temperature Rise (ITR) provides a Fund-level number in degrees Celsius demonstrating how aligned the companies in the Fund's portfolio are to global temperature goals. It is an intuitive, forward-looking metric that shows how a company aligns with the ambitions of the Paris Agreement - which is to keep a global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

ITR is based on the concept of a carbon budget (i.e. how much the world can emit and, by extension, how much a company can emit (across Scopes 1, 2 and 3) and remain within aligned with the Paris Agreement). Each company's budget is compared to its projected emissions out over the next five decades, which is calculated based on its emissions track record, stated reduction targets and other data. A company whose projected emissions are below budget can be said to “undershoot” while those whose projected emissions exceed the budget “overshoot”. The ITR, expressed in degrees Celsius (°C), estimates the global implied temperature rise if the whole economy had the same carbon budget over-/undershoot level as the company (or portfolio) in question.

Further details of MSCI's methodology and assumptions for its ITR metric can be found [here](#).



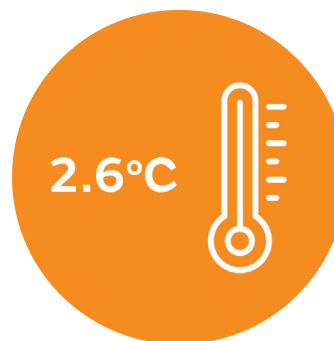
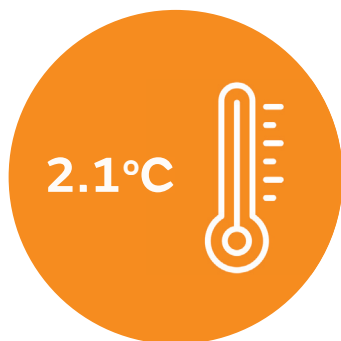


### GIB AM SWCBF Implied Temperature Rise



GIB AM SWCBF

Benchmark\*



According to MSCI's Implied Temperature Rise model, it is projected that the GIB AM Sustainable World Corporate Bond Fund has an implied temperature increase of 2.1°C. This figure is lower than the Benchmark's projected increase of 2.6°C, indicating a more favourable alignment with the global temperature goals.

Source: MSCI as at 31 December 2023

Fund Data Coverage: 90%, Benchmark Data Coverage: 82 %

\*Bloomberg Global Aggregate Investment Grade Corporate incl. High Yield and EM Custom Index





## Glossary

Terms	Definition
BICS	Bloomberg Industry Classification Standard (BICS) is a type of classification provided by Bloomberg to securities to their corresponding industry group
Co2e	Carbon dioxide equivalent is used to measure and compare emissions from greenhouse gases
Climate-related Opportunities	Defined by the Taskforce for Climate-related Financial Disclosures as Efforts to mitigate and adapt to climate change also produce opportunities for organizations, for example, through resource efficiency and cost savings, the adoption of low-emission energy sources, the development of new products and services, access to new markets, and building resilience along the supply chain
Climate-related Risks	Divided by the Taskforce for Climate-related Financial Disclosures (TCFD) into two major categories: (1) risks related to the transition to a lower-carbon economy and (2) risks related to the physical impacts of climate change
Financed Emissions (Co2e)	Measures the carbon emissions for which an investor is responsible, per USD million invested, by their equity ownership
EVIC	Enterprise Value Including Cash (EVIC) is an alternate measure to Enterprise Value (EV) to estimate the value of a company by adding back cash and cash equivalents to EV. $EVIC = \text{market capitalisation at fiscal year-end date} + \text{Preferred Stock} + \text{Minority Interest} + \text{Total Debt}$ .  The underlying data used for EVIC calculation is sourced from a company's accounting year-end annual filings. EVIC is updated and reflected once a year as the data is sourced annually.
GHG Emissions	Greenhouse Gas Emissions
Implied Temperature Rise (ITR)	Provides a fund level number in degrees Celsius demonstrating how aligned the companies in the fund are to global temperature goals
MSCI	Morgan Stanley Capital Investments (MSCI) is a global company that provides research, data and technology to help clients understand and analyse risk and return in financial markets
NGFS	Network for Greening the Financial System. A network of Central Banks and Supervisors whose purpose is to help strengthening the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development



Terms	Definition
Scope 1 emissions	<p>Defined by The Greenhouse Gas Protocol as direct greenhouse gas emissions that occur from sources that are owned or controlled by a company.</p> <p>According to the GHG protocol, the following activities are included as scope 1 emissions:</p> <ul style="list-style-type: none"> <li>▪ Generation of electricity, heat or steam that result from the combustion of fuels in stationary sources</li> <li>▪ Physical or chemical processes</li> <li>▪ Emissions resulting from the combustion of fuels from company owned or controlled mobile combustion units (e.g., cars) associated with the transportation of materials, products, waste and employees</li> <li>▪ Fugitive emissions</li> </ul>
Scope 2 emissions	<p>Defined by The Greenhouse Gas Protocol as indirect greenhouse gas emissions associated with the purchase of electricity, steam, heat or cooling</p>
Scope 3 emissions	<p>Defined by The Greenhouse Gas Protocol as all other indirect emissions that occur in the upstream and downstream activities of an organisation, including.</p> <ul style="list-style-type: none"> <li>▪ Transport-related activities (e.g., employees business travel and employees commuting to and from work)</li> <li>▪ Leased assets (including vehicles), franchises and outsources activities emissions</li> <li>▪ The use of sold products and services</li> <li>▪ Waste disposal</li> </ul> <p>Scope 3 carbon emissions can be classified into two broad categories:</p> <p><b>Upstream Scope 3</b> emissions: defined as indirect carbon emissions related to purchased or acquired goods and services; and</p> <p><b>Downstream Scope 3</b> emissions: defined as indirect carbon emissions related to sold goods and services</p>
Total Financed Carbon Emissions	<p>Measures the total carbon emissions for which an investor is responsible, per USD million invested, by equity ownership</p>
TCFD	<p>Taskforce on Climate-Related Financial Disclosures. The Financial Stability Board (FSB) created the TCFD to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks—risks related to climate change</p>
Weighted Average Carbon Intensity (WACI)	<p>Measures a portfolios exposure to carbon-intensive companies, defined as the portfolio weighted average of companies' carbon intensity</p>



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