Colchester®
GLOBAL INVESTORS

ESG Engagement Report

December 2024

Introduction

In our previous engagement reports, we noted that if a more stable economic environment can be sustained, it is likely to provide greater capacity for governments to allocate more funds towards transition finance and to promote private sector initiatives. The 29th Conference of the Parties (COP29) to the UN Framework Convention on Climate Change (UNFCCC) in November 2024 in Baku, also known as "Finance COP", focused on scaling up climate finance for developing countries from private and public sources. Instead of amicable agreements, tensions between developing and developed nations were evident. While funding was increased significantly by developed nations, it was viewed by some as "too little", with finance commitment details remaining largely absent and a deal was only struck at the 11th hour. With COP29 mirroring the process of the UN biodiversity conference COP16 just a month earlier, various stakeholders wrote an open letter post-COP29, declaring it "not fit for purpose"[1] and calling for reform on future COPs.

What were our key takeaways at COP29?

- Developed nations increased their previous funding commitment from US$100 billion per year to US$300 billion per year towards developing countries by 2035 under the **New Collective Quantified Goal**[2].
- While no progress was made on the fossil fuel phaseout, an agreement was reached to refine methodologies and to develop **carbon credit standards** to ensure credibility going forward, as well as a **global carbon trading system** to be managed by the UN.
- The **Loss and Damage Fund (LDF)** agreed on at COP27 in November 2022 becomes operational with distribution starting in 2025. Given there is around US$700 million in the LDF, it was noted that it fell short of the needed estimate of US$1.3 trillion per year by 2035, hence **COP30 in Brazil** is expected to build on this momentum by translating commitments into impactful solutions in 2025.
- Apart from these officially agreed targets and goals, the tone of the conference was impacted by the then **newly elected climate sceptic US President Donald Trump**, which lead to careful negotiations by nations for the US not to upend years of climate finance negotiations. In our opinion, it is worthwhile noting that the US presidency lasts for four years, whilst climate finance takes decades. Nevertheless, we recognise the risks to possible climate finance delays.
- With the US' possible absence from future climate talks, **China** was seen as the successor. China, classified as a developing country under the UN, is exempt from a formal greenhouse gas (GHG) emission reduction target and obligation to provide climate finance. Nevertheless, China has committed to some global climate funding.
- Some countries, such as Brazil, the UK and UAE released their updated **Nationally Determined Contributions**[3] **(NDC) at COP29** in November ahead of the February 2025 deadline.

We are encouraged to see the NDCs published over 2025 with countries sharing their roadmap, particularly with respect to how they plan on reducing their GHG emissions over the next 10 years. This should complement the Assessing Sovereign Climate-related Opportunities and Risks (ASCOR) Project's work, which Colchester has supported from its inception and co-chaired, with the release of 70 country assessment reports in November 2024. The latest "ASCOR results find that no country has a 2030 NDC target ambitious enough to align with their 1.5°C benchmark, but two countries - Costa Rica and Angola - come very close."[4] (Please see more details in the Industry Initiatives Section.)

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[1] The Club of Rome

[2] New collective quantified goal on climate finance. Draft decision -/CMA.6. Proposal by the President | UNFCCC

[3] Nationally determined contributions (NDCs) are at the heart of the Paris Agreement from COP21 in 2015. Parties agreed to reduce their GHG emissions to limit the temperature increase to 1.5°C above pre-industrial levels. https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs

[4] https://transitionpathwayinitiative.org/publications/92/show_news_article

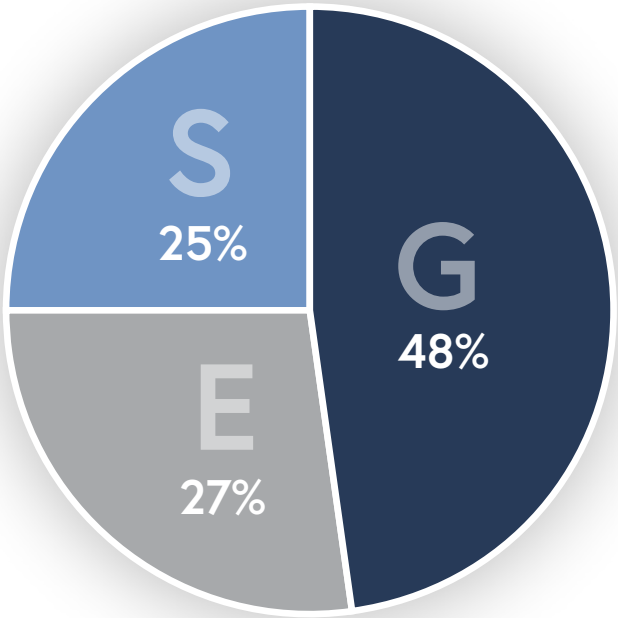
Summary of Engagements: H2 2024[5]

45 Engagements and 75 Issues

73% of engagements with relevant government officials

20% of engagements are Industry-level collaborations

7% of engagements are with non-Issuer Stakeholders



[5] Period ending 31st December 2024

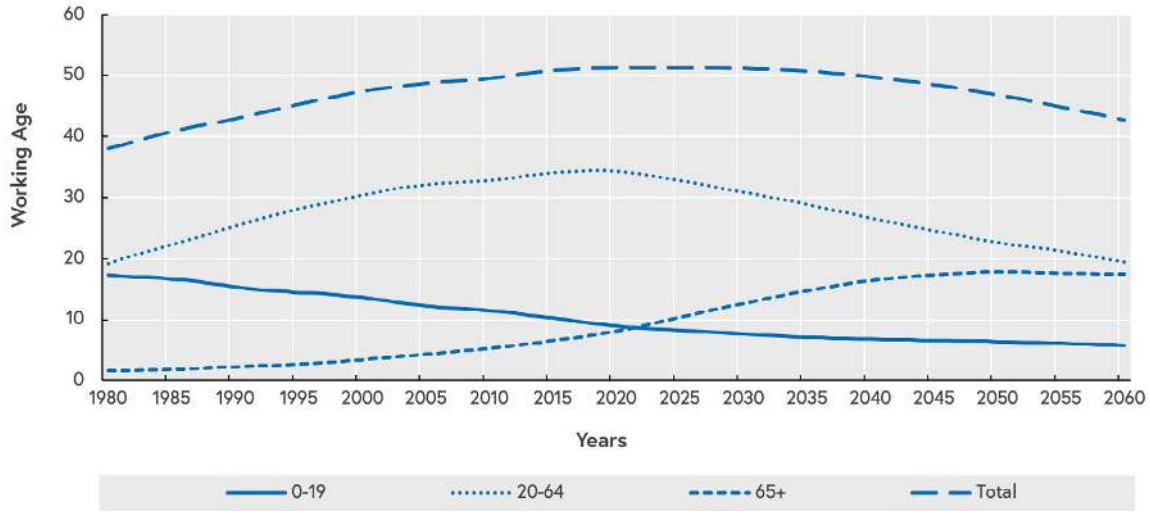
Global Bond Strategy Engagements

South Korea

South Korea has transformed itself over recent decades into a high-income country with economic growth averaging 5.7% p.a. between 1980-2023 and has reduced poverty rates significantly. Since 2022, Korea is part of the so called "30-50 club,"[6] a highly export dependent country and leader in high-tech industries. However, like many other advanced economies, challenges remain around unfavourable demographics, with rising social security costs over the longer term in the absence of structural reforms. Therefore, during our engagement with the Korean authorities, our focus was around reforms to promote productivity growth and to ensure public finance sustainability.

Based on the UN population projections, Korea's working age population is expected to reach its peak during 2024/25, as shown in the following chart.

Korea's working-age population



Source: United Nations, World Population Prospects – 2019 Revision

Authorities noted that it is more important than ever to improve the growth in Total Factor Productivity (TFP), due to the adverse demographic profile. TFP changes' most impactful driver is technological progress (innovation), as population growth is unlikely to pick up in South Korea. Korea has the lowest births-per-woman on average, whereby women are having less than one child and are reluctant to have children because of high education costs, elevated house prices and difficulty in returning to work after giving birth. The female labour participation rate is another lever the government is looking at to support the shrinking workforce.

[6] This group consists of countries with a per capita income of more than US$30,000 and a population of over 50 million. This puts it in the same bracket as the US, Germany, UK, France, Japan and Italy.

The high proportion of the older population and the country's lack of an established pension system until the 1980s has left elderly Koreans with the second highest rate of income poverty amongst OECD member states. Nearly 40% of South Koreans over 65 live below the OECD's poverty line; this compares poorly with 20% in Japan and the OECD average of 14%. One of the key reasons for this is that South Korea's public pension fund (NPS) was established in 1988 for the private sector reaching almost universal coverage in 1999[7], and operates on a pay-as-you-go defined benefit basis. As at the end of June 2024, it represented the world's third-largest pension fund with 1,147 trillion won ($860 billion) in assets, and is expected to be depleted by 2055 as payments start to outpace contributions from 2041.[8]

The contribution rate into the pension scheme (which is mandatory for wage earners) is 4.5% of income and matched by the employer, so in total 9%. This is low compared to 10.6% in the US, 18.3% in Japan and an average of 15.4% for members of the OECD.[9] Korea's legal retirement age is 60 years for both genders, but the rising life expectancy and low pension income has left Koreans aged 65+ still working. On our trip we debated the latest government pension reform plans to restore the fund's public sustainability. 30% of the younger population aged 18-49 support the abolition of the NPS due to the lack of trust in the fund. The proposed reforms encompassed:

- Gradually increasing the pension premium rate from 9% of income to 13% and the pension's income replacement rate from 40% to 42%;
- Slower rise in premium rates for the younger population;
- Automatic adjustment system for economic and demographic changes; and,
- Codification of the government's guarantee for pension receivers.[10]

Furthermore, Colchester believes the Government should also consider gradually increasing the retirement age in line with longer life expectancy. Such reform would be consistent with that observed in many other countries faced with similar structural issues.

In summary, we are encouraged by the government's efforts to address this highly sensitive topic to ensure longer term fiscal sustainability. Given the political events in December 2024, with the failed attempt to impose martial law by President Yoon and the following weeks without a stable government, the issue might be delayed. But, given the strength of the institutions as reflected in this episode, we remain encouraged and engaged and hence haven't changed our Financial Stability Score (FSS)[11] of 0 for Korean government bonds.

[7] OECD Reviews of Pension Systems: Korea, 2022

[8] https://www.koreatimes.co.kr/www/nation/2025/01/113_381872.html

[9] https://www.reuters.com/world/asia-pacific/south-koreas-yoon-says-pension-reform-needed-ensure-fairness-income-security-2024-08-29/

[10] https://www.wtwco.com/en-gb/insights/2024/12/south-korea-proposed-pension-system-reforms-include-a-substantial-increase-in-contributions

[11] The scoring range of +4 to -4 applies to countries typically considered for inclusion within Colchester's Global Bond and Emerging Market programs. The lower bound has been extended to -8 to allow for the application of the framework to Frontier Markets.

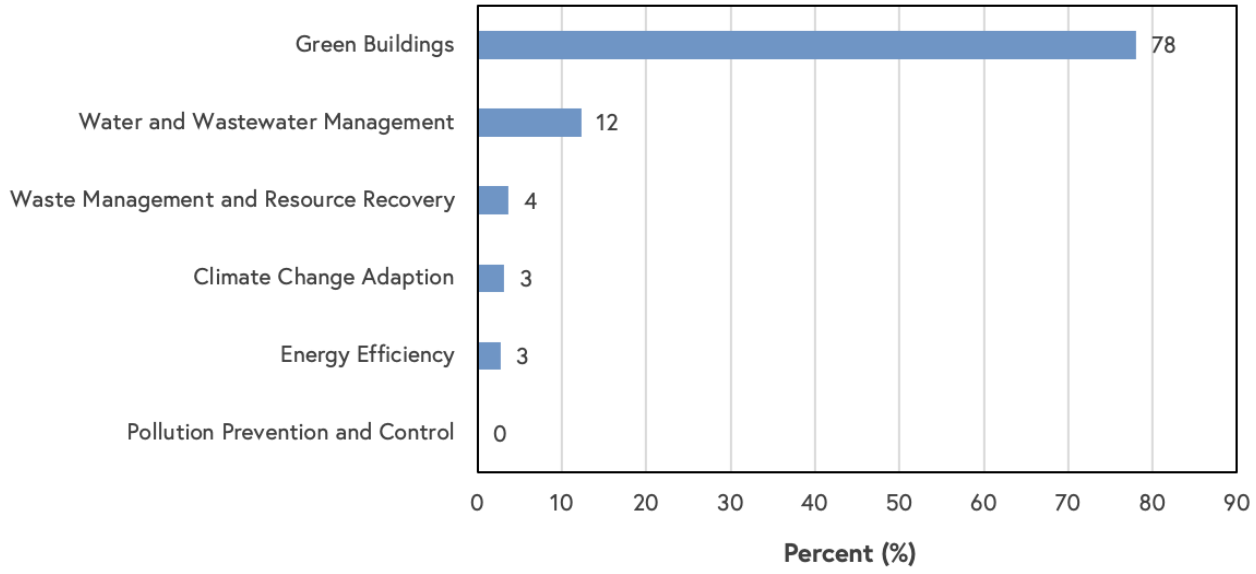
Hong Kong

We engaged with the authorities of the Hong Kong Special Administrative Region (HKSAR or Hong Kong) regarding their Government Sustainable Bond Programme[12] (GSBP) and specifically its Green Bond framework, where a review of the use of proceeds (UoP) for projects consistent with Colchester's Green Bond investment framework was undertaken. They also discussed Hong Kong's vision to improve the environment, combat climate change and transition to a low carbon economy as set out in Hong Kong's Climate Action Plan 2050.[13]

By way of background, electricity generation is Hong Kong's largest source of carbon emissions (63%), followed by transport (19%) and waste (8%)[14]. Therefore, Hong Kong's decarbonisation efforts are centred on these three key areas and the adoption of four strategies, namely net zero electricity generation, energy savings and green buildings, green transport and waste reduction. The Hong Kong Government's inaugural green bond issuance in May 2019 was a US$1 billion institutional offering. Since then, the government has issued some HK$220 billion or around US$28 billion worth of green bonds under the GSBP. Commitment to promoting Hong Kong's GSBP with green bond financing was further supported in May 2024 when the government expanded the scope of the GSBP borrowing ceiling GSBP to a total HK$ 500 billion or around 15% of GDP.

In accordance with Hong Kong's Green Bond framework, the proceeds of issuances will be used exclusively to finance or re-finance green projects that fall under one or more of the nine Eligible Categories[15]. There have been ten rounds of green bond issuance to the end of 2024. The proceeds of the first nine rounds have either been fully allocated or earmarked to eligible green projects. We reviewed the four green bond issuances in 2023 to identify how proceeds were allocated to project expenditures within the last two or next two financial years from issuance date. As the following chart shows, UoP have predominantly been allocated to projects for Green Buildings such as the redevelopment of the Prince of Wales Hospital in the New Territories of Hong Kong as showcased in the Green Bond Report this year.

Use of proceeds in Eligible Projects from 2023 issuance



Source: Hong Kong Special Administrative Region of the People's Republic of China: Green Bond Report 2024.

[12] Formerly known as the Government Green Bond Programme until May 2024

[13] Hong Kong's Climate Action Plan 2050 sets the vision of Zero-carbon Emissions, Liveable City, and Sustainable Development to achieve carbon neutrality before 2050.

[14] Hong Kong Special Administrative Region of the People's Republic of China: Green Bond Report 2024

[15] Renewable Energy, Energy Efficiency and Conservation; Pollution Prevention and Control, Waste Management and Resource Recovery, Water and Wastewater Management, Nature Conservation / Biodiversity, Clean Transportation; Green Buildings; and Climate Change Adaptation.

Since the launch of GSBP, allocation to projects for Green Buildings have accounted for around two thirds of the total proceeds raised. Improving efficiency and saving energy in promoting green buildings has enabled Hong Kong to move closer to achieving the goal of reducing the electricity consumption of commercial buildings by 30% to 40% and that of residential buildings by 20% to 30% from the 2015 level by 2050, and to achieve half of these targets by 2035. In this regard, we believe the UoP towards promoting Green Buildings is logical and sensible as buildings account for 90% of Hong Kong's electricity consumption. Furthermore, we recognise that Hong Kong has relatively limited scope for developing large scale renewable energy due to its geographical landscape, scarce land and a dense population. For that reason, Hong Kong may continue to rely on imported fuel for electricity generation or imported electricity from the mainland to meet its electricity demand, while seeking a more reliable and cost-effective technology for renewable energy when it becomes available. We are encouraged by the government's strive for renewable energy developments including more advanced waste-to-energy facilities, exploration of use of space, and potential to build offshore wind farms. We will continue to monitor the UoP in Hong Kong Government's future green bond reports.

Hong Kong has set out clear strategies and specific action plans to achieve its medium and long-term decarbonisation targets. We would, however, welcome the Hong Kong authorities to incorporate the policies detailed in their Climate Action Plan 2050 into law to improve monitoring and accountability, and to strengthen commitment to its climate change objectives as also highlighted and discussed in the ASCOR framework with them. Nonetheless, we are satisfied that Hong Kong government green bonds are aligned with International Capital Market Association (ICMA)'s Green Bond Principles[16] and that their UoP are consistent with meeting their climate objectives. Therefore, green bonds issued under GSBP are also consistent with Colchester's Green Bond investment assessment framework[17]. As such, when we account for Hong Kong's relatively strong balance sheet, supported by substantial fiscal buffers and robust external finances, we remain confident in maintaining a bond and currency FSS of +1 and +2, respectively.

[16] Green-Bond-Principles-June-2021-140621.pdf (icmagroup.org)

[17] At the time of this report Colchester did not hold positions in Hong Kong Government Green Bonds in any of its strategies.

Emerging Markets Strategy Engagements

The following two case studies about Uruguay and Chile are both concerned with Sovereign Sustainability Linked Bonds (SLB). We wanted to understand the progress of both Uruguay and Chile on their Sovereign SLB issuances, given these were the first two countries that pioneered such instruments, followed only by Thailand in 2024.

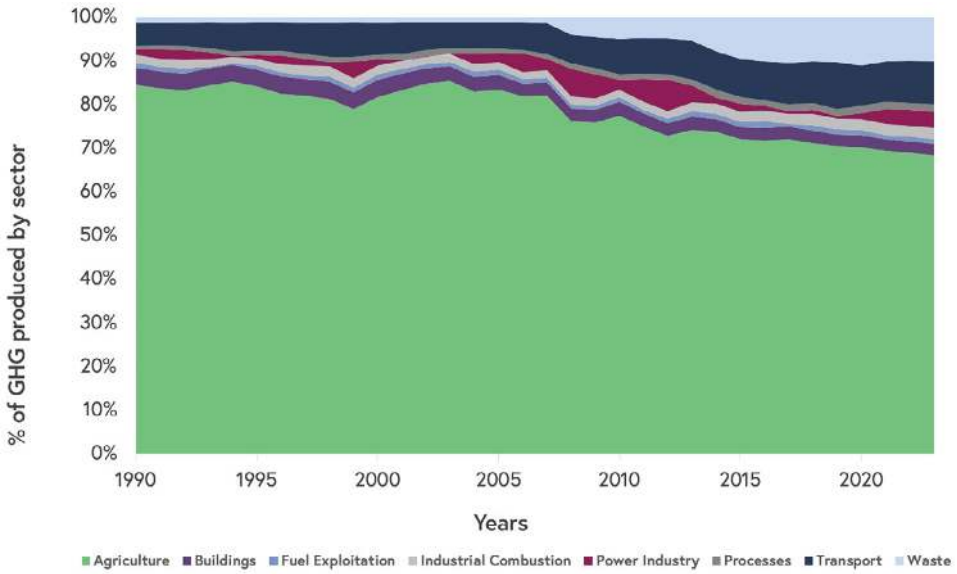
Uruguay

Uruguay issued a SLB in 2022 with both Key Performance Indicators (KPI) relating to environmental targets. Please note that the targets differ between Chile (see separate case study) and Uruguay's SLBs. One of Uruguay's KPIs was to preserve the area of native forests in the country, and the other was to reduce the intensity of aggregate gross Green House Gas (GHG) emissions per real GDP unit with respect to 1990 levels. The second target can be addressed by both reducing GHG emissions and by increasing real GDP. If GDP rises without a corresponding increase in GHGs then the intensity of GHG per real GDP will fall.

Whilst Colchester isn't invested in the Uruguayan SLB, we do follow each country's decarbonisation path and hence were interested in learning more about the challenges Uruguay faces in reducing GHG per real GDP, as the vast majority of GHGs produced in the country come from the agricultural sector. In contrast to many other fossil fuel dependent countries, the majority of Uruguay's electricity comes from hydropower (c. 40%) and wind (c. 30%). Less than 10% of the electricity produced in the country comes from fossil fuels.

The agricultural sector is responsible for 68% of total GHG emissions in the country. Uruguay is a large beef producer with there being around 12 million head of cattle in the country compared to a population of 3.4 million people. Nearly 50% of total exports from the country are from the food and agribusiness sector. With agriculture being by far the dominant polluting sector, the country faces challenges that are different to most other nations. The breakdown of GHG emissions for the country is shown in the following chart.

GHG Emissions by Sector in Uruguay



Source: Edgar. Data from 1990 to 2023

We engaged with the Ministry of Finance to discuss how they were progressing to meet their target. To address the GHG emissions problem the Ministry of Finance has been working closely with both the Ministry of the Environment and the Ministry of Agriculture. With the large cattle herd, methane emissions are a serious problem. The government has been working to reduce this by cooperating with farmers to find solutions.

Research in the country has shown that if cattle eat higher quality food, then it is easier to digest and hence produce less methane. The problem is that the higher quality the food, the more expensive cattle farming becomes. There have also been studies in the country examining the length of the grass that cattle eat, with different lengths of grass producing different emissions. However, to ensure that cattle eat grass of a certain length requires more complex rotation of the cattle around the pastureland on the farms. We were told that while studies like this have produced promising results, they have only been done on a small scale and the challenge will be to produce the same results on a larger scale and at a competitive price.

Although Uruguay is slightly unusual in that it has such a large amount of its total GHG emissions coming from the agricultural sector, it is not unique. There are other countries that also have large agricultural sectors where emissions are high. So far, most countries have struggled to reduce agricultural emissions. If the Uruguayan government can make real progress in this area, they could export such innovative agrotechnology to the rest of the world. Also, with the agricultural sector being such a large part of the economy, reducing GHG emissions in a cost-effective manner is key to the competitiveness of the economy. We will keep monitoring their decarbonisation progress via its SLB KPIs in conjunction with ASCOR's independent measure. We maintain our bond FSS for the country at -4.

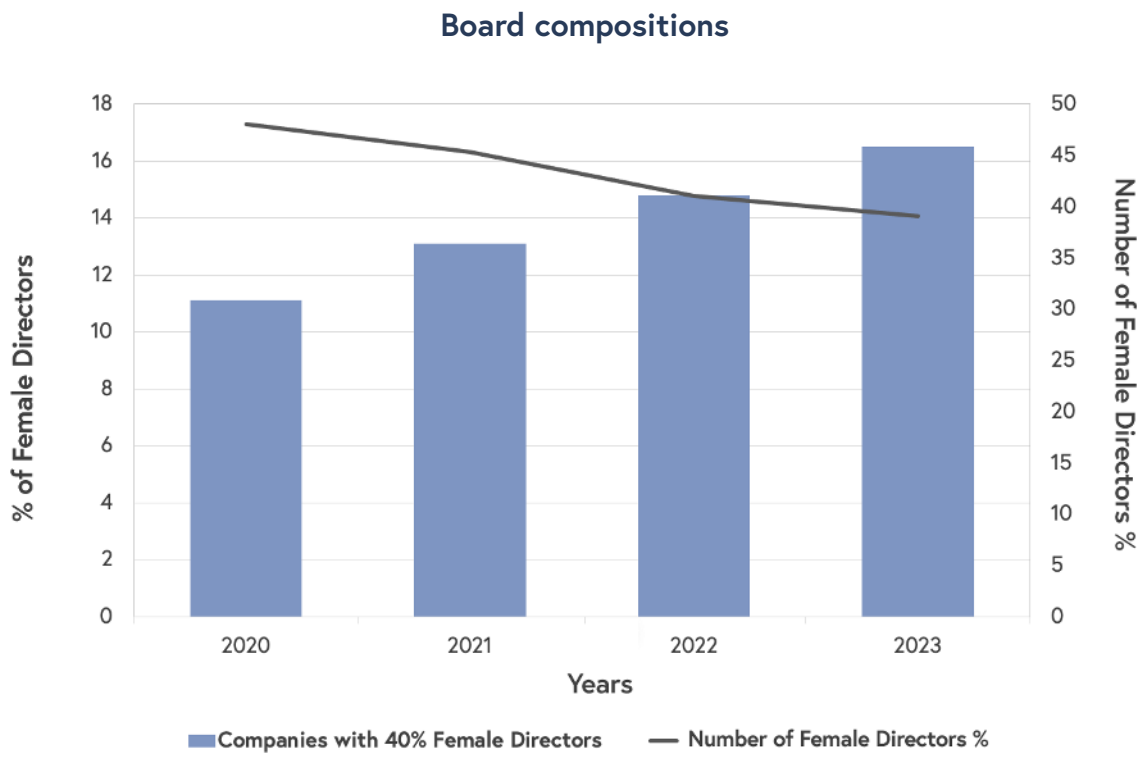
Chile

Chile has been one of the leading South American countries in terms of Green and Sustainable Bonds, issuing its first green bond in 2019, followed by its first SLB in 2022. In 2023, Chile added a new KPI under its SLB framework becoming the first country to include this. SLBs are issued with measurable performance targets, or KPIs, that will target a certain measure. If the country does not hit this target, then the coupons on the bond will be increased. This differs from a standard green bond where the government or company would only pledge to invest the proceeds into green projects. The SLB actually defines a target that the country must reach and will impose a financial penalty if this is not met. This target does not have to be a "green" target as such, although they often are, but it could be another social target.

In its initial Sustainability Linked Framework published in March 2022, Chile laid out a GHG target and a Renewable Energy Generation target as a percentage generated in the National Electric System. Later, they added a target of Women's representation on companies board of directors, which on average should be 40% by 2031. The target only applies to companies that report to the CMF (Comision para el Mercado Financiero) Chile's financial regulatory body. The CMF publishes gender statistics on the companies it oversees.

Whilst Colchester doesn't hold the SLB, we engaged with the Chilean Ministry of Finance to discuss the targets and any progress to date related to the country's overall climate pledge. The Ministry of Finance does not have direct control over the government departments or companies who will be responsible for delivering the results, but has set the targets with potential implications on government finances. On the issue of women's representation on boards, we were told that the government has no intention of making any legislation to drive this change. Rather they want to do this as a collaborative process, encouraging companies to enact change. It is envisaged that if certain companies do act, it will be an example for others to follow suit, even those that are not within the target group that report to the CMF.

The Ministry of Finance noted that they are coordinating with other ministries to help push overall gender equality and this target in particular. State owned companies have already hit the 40% target, but the biggest problem is with boards without any woman represented. The following chart shows the percentage of boards that have met the target of 40% women representation has now increased to 16.5%. It also shows the number of boards with no women on them. Although this number is falling, it is still high at 39%, thus making it hard to hit the overall target which is an average across all the companies.



Source: Sustainability Linked Bond Report 2024, https://www.hacienda.cl/english/work-areas/international-finance/public-debt-office/esg-bonds/sustainability-linked-bonds/annual-reports/2024-sustainability-linked-bonds-report

By using the SLB framework Chile has been able to broaden the framework of what bond investors can look to achieve with their capital. Of course, by not legislating to ensure the implementation of targets, the chances of success are reduced and government costs could potentially increase, but it is hoped that more lasting corporate culture changes are made in the future. We will continue to monitor the progress of Chilean government in achieving their targets and progress to its climate pledge. While we don't hold the SLB, we do have investments in Chile. The FSS of the country was kept at +1 for both bonds and currency.

Frontier Markets Strategy Engagement

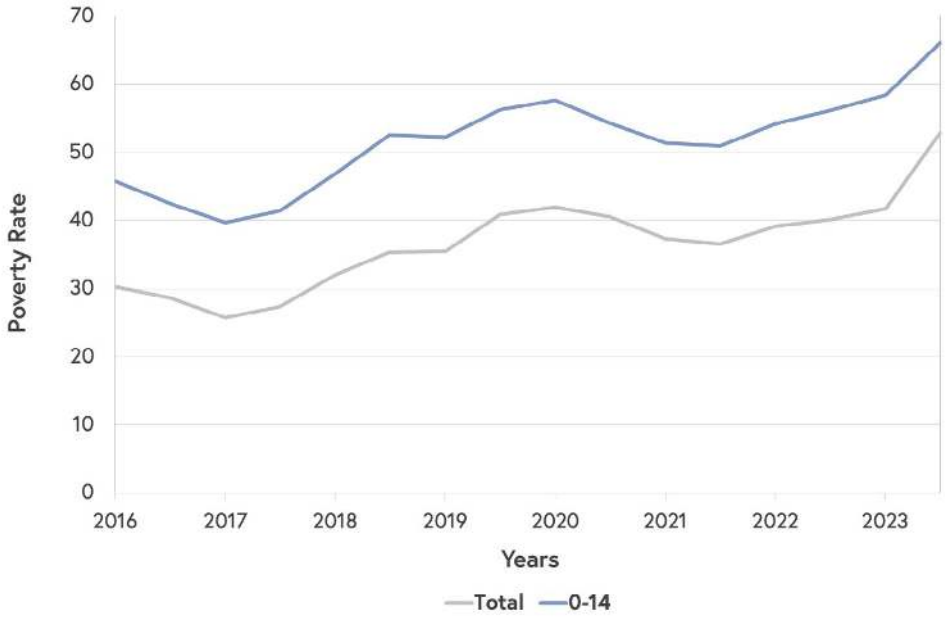
Argentina

Argentina has had a long period of difficult economic performance with the country being a "serial defaulter." The last time they defaulted was in 2020 and weak economic performance has disproportionately impacted the lower income population. According to the International Monetary Fund (IMF), the poverty rate in the country rose from 26% in 2017 to 42% by 2023, with 12% of the population living in extreme poverty. Of particular concern is the child poverty rate which has risen from 40% in 2017 to 58% by the end of 2023. From an economic viewpoint, children will go on to make up the economic workforce of the future, and starting life in such economic hardship does not bode well.

In late 2023, a new president, Javier Milei, came to power promising radical free market reforms for the country. Over 2024, Milei started to implement his new economic policies which has brought a measure of success. Government spending was slashed with real spending cuts of 26%, whilst real revenue only declined 8%, resulting in an overall government surplus. Combined with this, the central bank tightened monetary policy and stopped monetary financing of the government, which has started to bring inflation under control.

These measures resulted in a 3% economic contraction in Q1 2024, with real wages falling -17% in the period November 2023 to end of March 2024. With the sharp contraction in the economy, Colchester engaged with the Ministry of Finance to discuss their plans to support the poorest in society through this economic rebalancing. The following chart shows the total poverty rate and the poverty rate of children aged under 14. Both have been trending up for some time and have reached their highest Level in Q1 2024.

Total Poverty Rate and Childhood Poverty Rate in Argentina



Source: INDEC. Data from December 2016 to June 2024

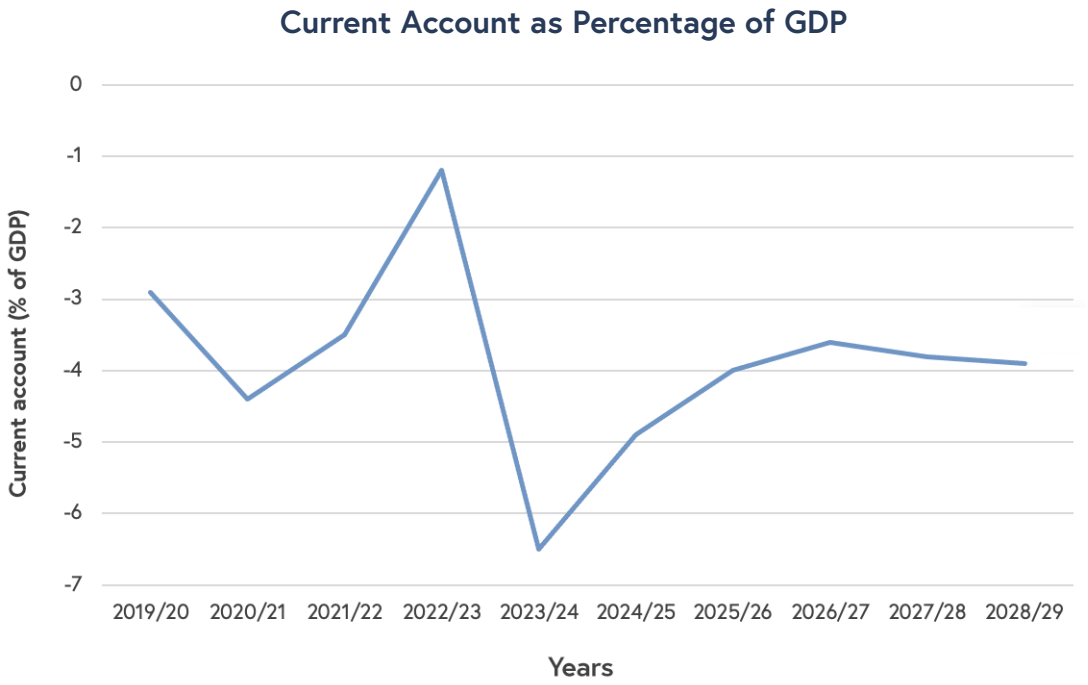
Whilst the social safety net in Argentina had always been comprehensive, it was often inefficient and did not always account for the erosion in incomes caused by high inflation. Hence, President Milei campaigned under the promise to slash the fiscal deficit, but to do this whilst protecting the poorest in society – including children. We learned that one of the measures taken by the government was the implementation of a sharp increase in child benefits with some allowances almost doubling in real terms over 2024. Another area that the government was focused on was the old Workfare Program (Potenciar Trabajo) that used to be a payment for unemployed workers. The payments were made through third parties who would have to vouch that the unemployed workers had been participating in government schemes before payments could be received. This convoluted and inefficient system was open to corruption and is being replaced by new programs with increased governance and direct payments made to recipients. We are encouraged by the swift and efficient implementation of these social reforms, that went beyond just child support, with the new administration making real efforts to support the poorer parts of the population.

The economic reforms that the government have launched will take time to show positive effects and may cause short term hardship. However, the best way to help the poor in any country is to grow the economy which in turn allows people to improve their standard of living. As such, we believe that these economic reforms, as long as they are implemented effectively, should help achieve these objectives. We will continue to monitor the poverty indicators, especially in relation to child poverty, as it will be one of the factors impacting Argentina's longer term work force. For the time being we keep a bond FSS of -8 for Argentina, largely because of past economic mismanagement, and the lack of governance that had a negative impact on social factors. After our engagement with the government, we did leave feeling more positive about the turn of events in the country and will continue to monitor the situation to look for further improvements.

Egypt

2024 was an eventful year for Egypt. The year started with a bleak outlook, but by the end of the year the situation had vastly improved. The transformation did not come without pain as Egyptian authorities allowed the currency to float freely, paving the way for a 60% devaluation in the pound with a subsequent knock-on effect on inflation in the country. Notwithstanding this, the United Arab Emirates provided Egypt with a meaningful injection of US$35 billion in capital for investment purposes, known as the Ras Al-Hekma deal, providing much needed support to both the fiscal dynamics as well as the balance of payments. Whilst these measures ensured short term financial sustainability, our engagement was to determine the medium to longer term situation.

To date, the fiscal accounts improved with the deficit of 6.1% seen in fiscal year 2022/23 consolidating meaningfully to under 4% the following year. However, much of the narrowing was a direct result of the one-off revenue related to the Ras-al-Hekma deal secured in March 2024. Ongoing fiscal consolidation relies heavily on revenue mobilisation as well as structural reforms, as agreed upon under the IMF program. In contrast, the external balances witnessed a significant widening due to the liberalisation of the FX regime, a decline in natural gas exports, reduced tourism revenues, and a decline in Suez Canal receipts as persistent disruptions in the Red Sea led to re-routing.



Source: National Bank of Egypt, as of date Q3 2024

Given this background, we met with Egypt's new Minister of Finance, Mr Ahmed Koutchouk, to discuss the government's priorities and outlook. Importantly, we wanted to understand what reforms were being carried out to avoid facing problems with both public finances and external balances down the line. The liberalisation of the FX regime and the reduction of subsidies have been two of the key reform priorities under the IMF's US$8 billion Extended Fund Facility program. The central bank has continuously reiterated its commitment to a sustained flexible exchange rate regime. Increased foreign portfolio investors participation throughout 2024 also seems to indicate support from the broader investor community.

In addition, the Minister assured us that the current administration's priorities over the coming year were firstly, to improve efficiency in tax collections and secondly, to make fiscal policy more business friendly to promote private sector growth. The latter was particularly important with respect to making the country's debt levels more sustainable over the medium term. Discussions with the Minister around stimulating private sector led growth highlighted significant challenges in this area. Apart from a fall in inflation from a high of 25.5%, we have yet to see progress with regards to privatisation efforts and reducing the military's involvement within industry.

Whilst we are reassured with the current state of Egypt's finances, we are also conscious that this is mainly owing to the external support that the country has received over the past year. Hence it is even more important for us to see continued discipline with respect to IMF-induced reforms, as well as a steadfast commitment to enacting structural reforms within the country to ensure long term financial sustainability. We will continue to engage with Egyptian authorities and stakeholders to monitor any developments as well as to gauge their willingness to adhere to reforms, and for now Colchester has made no change to the bond FSS awarded to Egypt of -6.

Industry Collaboration

Colchester has continued its collaboration with industry partners to share and encourage best practices in ESG integration. Whilst a full list of our industry collaboration activities can be found on page 16, we are most proud of our involvement in the ASCOR project. We have played an integral role since the inception of the project and supported the release of the 70 country assessment reports in November 2024 available under the ASCOR tool.

As ASCOR's co-chair, we are also pleased to have contributed to the publication "ASCOR State of Transition in Sovereigns 2024: Tracking national climate action for investors".[18]

As noted, the London School of Economics (LSE)/Transition Pathway Initiative (TPI) teams assessed 70 countries in November 2024, covering 100% of the countries in the FTSE World Government Bond Index (WGBI), Bloomberg Global Treasury Index and J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified, and 85% of the countries in the J.P. Morgan Emerging Markets Bond Index (EMBI), as well as 70% of those in the FTSE Frontier Emerging Markets Government Bond Index.[19]

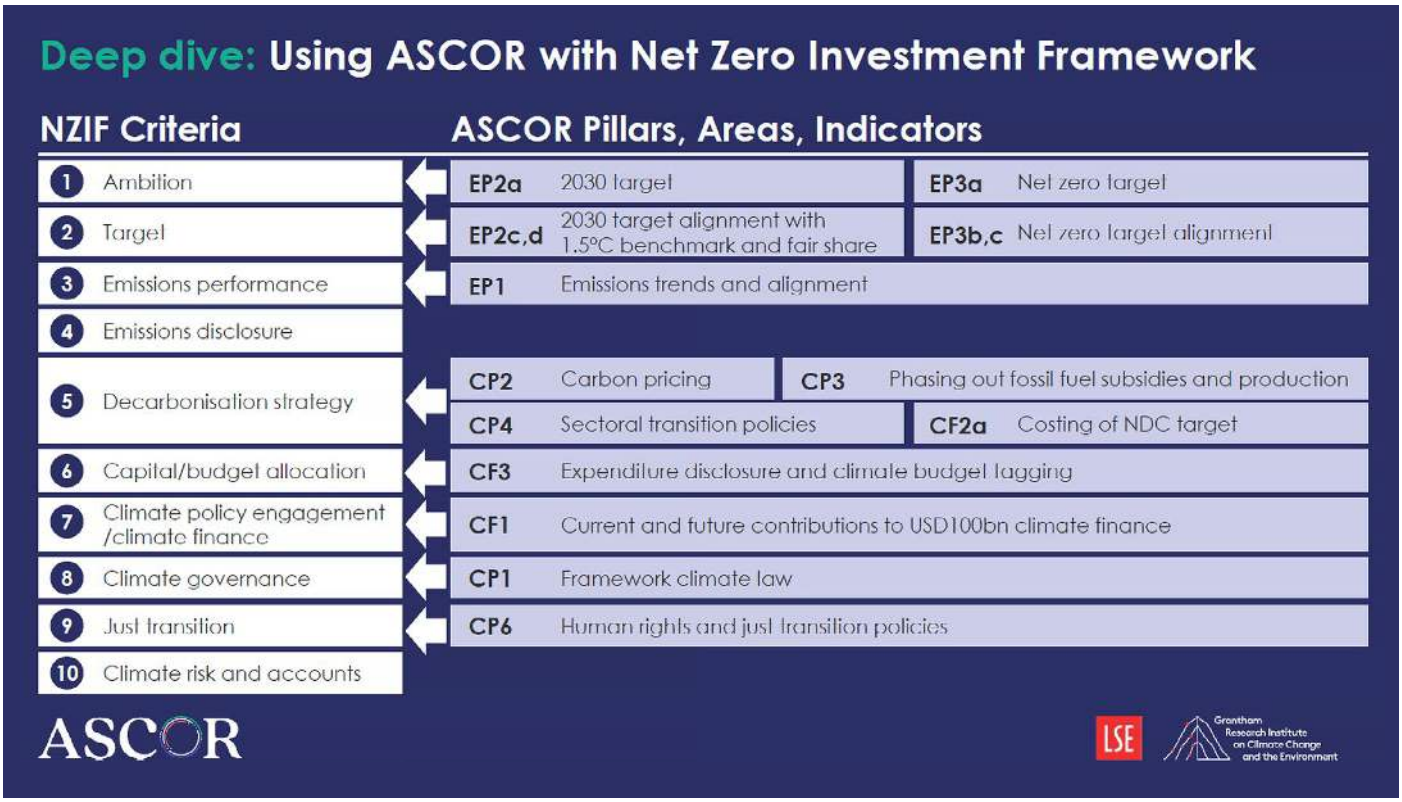
We further noted last time that asset owners are looking for sovereign net zero portfolio alignment, and the Institutional Investors Group on Climate Change (IIGCC) released its Net Zero Investment Framework (NZIF) 2.0[20] in which they recommend ASCOR as one of the possible assessment tools. The LSE/TPI team mapped the ASCOR indicators against NZIF 2.0's indicators as shown in the following chart. While we have the mapping, quite a few obstacles remain for a net zero sovereign bond portfolio, which continue to be debated within the industry. Given our active involvement working with all stakeholders on this, we have also chaired the roundtable discussion under the UN PRI Sovereign Debt Advisory Committee on "mandate design considerations for sovereign debt net zero portfolios".[21] The roundtable discussed the challenges and emerging solutions for investors.

[18] https://www.transitionpathwayinitiative.org/publications/uploads/2024-state-of-transition-in-sovereigns-2024-tracking-national-climate-action-for-investors-report.pdf

[19] https://transitionpathwayinitiative.org/publications/uploads/2024-ascor-progress-note

[20] https://www.iigcc.org/hubfs/2024%20resources%20uploads/IIGCC_NZIF%202.0_consultation_2024.pdf

[21] https://www.unpri.org/sovereign-debt/mandate-design-considerations-for-sovereign-debt-net-zero-portfolios/12859.article



Source: ASCOR, 2024

Lastly, Colchester has been part of the first UN PRI collaborative sovereign working group engaging with the Australian government on climate change and opportunities over the past few years. Recently we have further supported the "Next steps in the PRI's Collaborative Sovereign Engagement on Climate Change[22]" journey via a webinar.

[22] https://www.unpri.org/stewardship/next-steps-in-the-pris-collaborative-sovereign-engagement-on-climate-change/12947.article

The table below displays our full list of ongoing Industry Initiatives and Collaborations.

Industry Initiatives/ Collaborations	Acronym	Description
Principles for Responsible Investment	PRI	Colchester is a signatory to the PRI, a UN-supported network of investors that works to promote sustainable investment through the incorporation of environmental, social and governance considerations.
Task Force on Climate- related Financial Disclosures	TCFD	Colchester is a supporter of TCFD since May 2019 and we keep reporting annually on our progress.
Transition Pathway Initiative	TPI	Colchester is a supporter of TPI – a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. However, as a sovereign only asset manager, we are a research funding partner to develop a sovereign climate assessment framework via the ASCOR project.
Emerging Market Investors Alliance	EMIA	Colchester is a member of the Alliance, a not-for-profit organisation that enables institutional emerging market investors to support good governance, promote sustainable development, and improve investment performance in the governments and companies in which they invest. We are a member of the steering committee of the carbon transition initiative.
Green Bond Transparency Platform	GBTP	Colchester is a supporter to the GBTP led by the Inter-American Development Bank (IDB) and IDB Invest. IDB Invest is an innovative digital tool that brings greater transparency to the green bond market in Latin America and the Caribbean. GBTP supports the harmonisation and standardisation of green bond reporting, boosting investors' confidence that the proceeds from bond issuances are being spent on green projects whose impact are adequately measured.
Assessing Sovereign Climate-Related Opportunities and Risks Project	ASCOR	The project goal is to develop an assessment framework that enables the current and future climate change governance and performance of sovereigns to be fairly and appropriately measured, monitored and compared.
Investors Policy Dialogue on Deforestation	IPDD	The objective of the IPDD initiative is to ensure long-term financial sustainability of investments in the countries they are invested in by promoting sustainable land use and forest management and respect for human rights. The IPDD will engage with relevant government authorities, and industry associations and other relevant stakeholders to encourage adoption and implementation of regulatory frameworks that ensure protection of tropical forests and human rights.
Investment Management Association Singapore	IMAS	Colchester is a co-chair of the IMAS ESG Working Group, which jointly support industry ESG capacity building.
Nasdaq Sustainable Bond Network Advisory Board	NASDAQ	Colchester is a member for the Nasdaq Sustainable Bond Network. It connects issuers of sustainable bonds with investors, empowering them to evaluate impact and make informed investment decisions on sustainable bonds.
PRI Collaborative Sovereign Engagement on Climate Change Australia	PRI	The Collaborative Sovereign Engagement on Climate Change is a pilot PRI-led investor initiative to support governments to act on climate change. The Australian initiative consists of three sub-groups focusing on different parts of sovereign systems: a) National governments b) National regulators and authorities and c) Sub-sovereigns.

As of December 2024

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