Colchester®
GLOBAL INVESTORS

ESG Engagement Report

June 2025

Introduction

In our previous engagement report, we noted the anticipated wave of updated Nationally Determined Contributions (NDCs) in 2025. NDCs are national climate action plans submitted by countries under the Paris Agreement, outlining their targets for reducing greenhouse gas emissions and adapting to climate impacts. However, the first half of 2025 proved challenging for global climate policy. Only 23 countries had submitted updated NDCs ahead of the extended September deadline as set by the United Nations Framework Convention on Climate Change (UNFCCC), and limited engagement from the new U.S. administration tempered momentum.

Despite these headwinds, the first half of 2025 marked a strategic inflection point, with a growing convergence between sustainable finance and national security priorities. Countries such as the UK and Japan are increasingly channelling defence and energy security spending through ESG-labelled instruments. While this broadens the scope of sustainable finance, it also raises new questions about transparency and investor expectations.

Momentum also built in the lead-up to COP30 in Belém, Brazil. Brazil has emerged as a central actor, appointing veteran climate diplomat André Corrêa do Lago as COP30 President and hosting a series of preparatory events during the UNFCCC Bonn intersessionals. Discussions focused on just transition planning, adaptation metrics, and the implementation of post-global stocktake priorities – how collective progress towards the Paris Agreement's goals (e.g. limit warming to 1.5C) are assessed.

Climate finance, as noted in our last report, remains a critical focus. The roadmap agreed at COP29 in Baku continued to shape discussions, with over 100 countries submitting Biennial Transparency Reports and growing support for scaling climate finance to USD 1.3 trillion by 2035, up from approximately USD 300 billion today. Progress under Article 6.4 of the Paris Agreement also advanced, with the approval of a provisional credit registry and audit framework.

We look forward to tangible outcomes at COP30 later this year and will continue our engagement work aided by the Assessing Sovereign Climate-Related Opportunities and Risks Project (ASCOR) framework. ASCOR is already being used for sovereign engagement and should help investors make more informed risk assessments in conjunction with the updated NDCs.

Finally, Colchester is excited to have joined the PRI collaborative engagement working groups in Japan and Canada where several ASCOR indicators are informing investor dialogue.

Our engagements in the first half of 2025 have been with both issuers and industry. The highlights discussed in this report include:

- Country engagements with Mexico, Brazil, Italy, Bulgaria and Sri Lanka, as well as the Auckland Council in New Zealand.
- A progress update on the ASCOR Project, and
- Our other collaborations with industry-level peers.

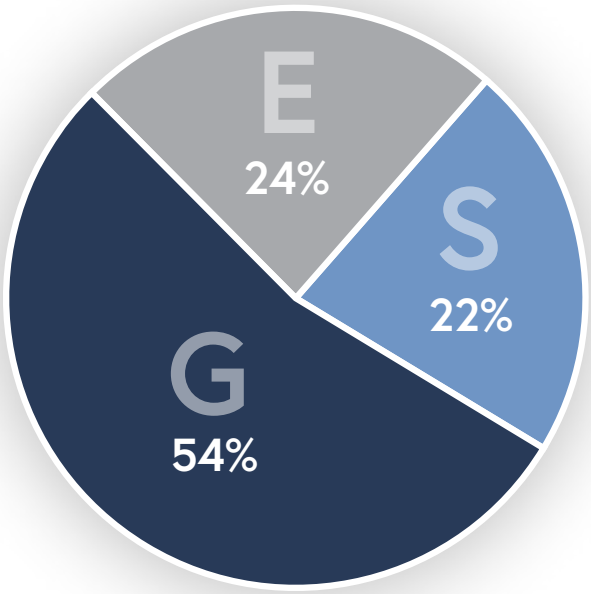
Summary of Engagements: H1 2025[1]

54 Engagements and 54 Issues

66% of engagements with Government Officials

28% of engagements are Industry-level collaborations

6% of engagements are with non-Issuer Stakeholders



[1] Period ending 30th June 2025

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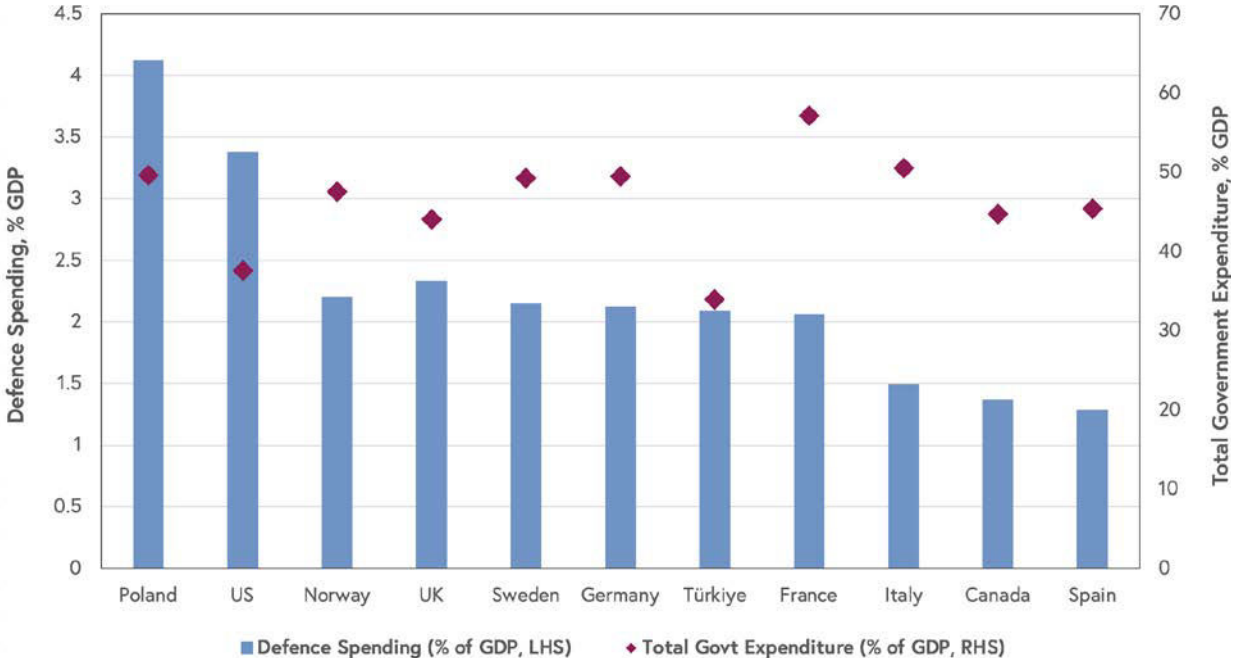
Engagements

Italy

We engaged with Italian authorities and political representatives of the government coalition in Milan during May 2025 to discuss a number of issues including the pressure on European states to increase defence spending. This pressure was highlighted at the recent NATO summit held in The Hague, where member states agreed to increase defence spending targets from 2% to 5% of GDP (of which 1.5% may be allocated to related infrastructure and digital resilience spending). This decision, driven by heightened geopolitical tensions and pressure from the United States for greater European burden-sharing, presents a significant fiscal challenge for Italy given its already elevated debt levels.

Italy's sovereign balance sheet remains one of the most indebted amongst advanced economies, with gross government debt currently standing at approximately 137% of GDP[2]. Public expenditure exceeds 50% of GDP[2], and the country is subject to the European Union's Excessive Deficit Procedure. Against this backdrop, the government faces a delicate balancing act between meeting new defence commitments and maintaining fiscal discipline.

Chart 1: European Defence Spending and Government Expenditures as a % of GDP



Source: United Nations, World Population Prospects – 2019 Revision

[2] Source: IMF, 2025

During our meetings, officials emphasised the Meloni administration's commitment to prudent fiscal management and investor confidence. This stance is reflected in the narrowing of Italian bond spreads relative to German Bunds over recent years, which are currently at their lowest levels since 2010[3]. However, the government's ability to accommodate increased defence spending without compromising environmental and social priorities remains uncertain.

One example of fiscal restraint cited by the authorities was the termination of the "Superbonus" tax incentive scheme, originally designed to promote energy-efficient building renovations. During our conversations, officials mentioned that although the programme was successful in stimulating activity, its cost escalated from an initial estimate of €35 billion to over €200 billion—nearly 10% of GDP. The decision to halt the scheme underscores the government's intent to rein in spending, though further fiscal consolidation will be necessary to reduce the debt burden. It also highlights how environmental objectives may be inconsistent with the fiscal realities faced by governments today.

We also discussed the political dynamics surrounding defence spending. Public support for increased military expenditure is limited, and divisions exist within the governing coalition. Nonetheless, the government is exploring avenues to mitigate the fiscal impact, including advocating for expanded EU-level borrowing to finance defence investments. While this proposal could help shield lower-rated sovereigns such as Italy from additional strain, it remains politically contentious and subject to broader EU negotiations.

The EU's ReArm Europe initiative, which includes a €150 billion loan facility and exemptions from fiscal rules for defence spending, may offer some relief. However, these exemptions do not currently apply to countries under the Excessive Deficit Procedure, such as Italy. As such, the feasibility of Italy meeting its NATO obligations while reducing its debt ratio remains a key area of concern.

Another topic of engagement was Italy's evolving stance on nuclear energy. Following referendums in the 1980s, the country phased out nuclear power. The current government is seeking to reverse this position by introducing legislation to support the development of Small Modular Reactors (SMRs), with a legal framework expected by 2027. In our view, this represents a pragmatic and fiscally sustainable step toward enhancing energy security and reducing emissions.

In conclusion, Italy is navigating a period of relative political stability, with the current administration demonstrating a clear commitment to fiscal reform. However, the competing demands of defence, environmental investment, and debt reduction will require careful policy calibration. Our bond and currency Financial Stability Score (FSS) for Italy is currently a -4 within our Global Bond Program, reflecting the sovereign's high debt levels and ongoing fiscal challenges, along with the government's efforts to preserve macroeconomic stability.

[3] Source: Bloomberg. As at 19th August 2025.

Auckland Council, New Zealand

Colchester is a holder of the Auckland Council's green bond and has engaged with the Council's Group Treasury to assess the evolution of its sustainable finance strategy and the role of green bonds in supporting the city's long-term infrastructure investment plans. Auckland Council was the first issuer of green bonds in New Zealand, debuting in 2018 with a NZ$200 million transaction to finance electric trains and associated infrastructure. Since then, the Council has issued ten green bonds across multiple currencies and maturities, including a 2050 NZD-denominated bond currently held in Colchester's Green Bond Fund.

Green bond proceeds have primarily supported clean transportation and water infrastructure, which together account for most eligible assets. Clean transportation represents 73% of the green asset pool, while sustainable water and wastewater management accounts for 14%. Other eligible sectors include green buildings, pollution prevention, energy efficiency, renewable energy, and climate adaptation. Notable projects include the City Rail Link (CRL), electric train procurement, public cycleways, LED streetlight upgrades, and water infrastructure improvements.

In this context, we discussed the recent reform of New Zealand's water sector. By way of background, under the new legislation, Watercare Services Limited—previously a wholly owned Council entity—must now fund itself independently. As a result, approximately NZ$540 million in water-related assets have been removed from the Council's eligible green bond register.

Furthermore, officials noted that maintaining a robust pipeline of eligible projects remains a key challenge. While climate considerations are embedded in project planning, the Council's broader capital expenditure programme includes essential services and maintenance that often fall outside green bond eligibility criteria. Efforts are underway to improve the identification and classification of green assets, though the Council acknowledged that some qualifying projects may currently be underreported.

On the topic of reporting, the Council highlighted the growing burden of mandatory climate disclosures. Impact assessments are reviewed by Toitū Envirocare, while Sustainalytics provides annual verification of alignment with use-of-proceeds and reporting standards. While the Council's Annual Green Bond Report includes clear metrics such as projected carbon reductions, we noted that the contribution of these projects to regional or national net-zero targets remains difficult to assess. In response, the Council is currently recalibrating its emissions baseline under New Zealand's new climate reporting standards. This re-baselining is essential for tracking progress toward its interim target of a 50% emissions reduction by 2030 (relative to a 2019 baseline) for sustainability-linked facilities. The Council assured us that historical data inconsistencies are being addressed to ensure more robust reporting going forward. We also shared with the Council international best reporting practices and reaffirmed our assessment of their green bonds meeting Colchester's Green Bond Framework requirements.

Brazil

Brazil is a large position in our local emerging market program. The country continues to play a pivotal role in global climate governance, being home to approximately 20% of the planet's biodiversity and the world's largest tropical forest. Brazil already generates around 80% of its electricity from renewable sources—primarily hydropower—and environmental sustainability remains a central pillar of the current administration's policy agenda, supported by the country hosting the upcoming COP30.

Colchester met with Brazil's Deputy Minister of Finance, who also leads the government's flagship Ecological Transformation programme. This initiative is broad in scope, encompassing sustainable finance, technological innovation, green infrastructure, agri-food systems, and the energy transition—particularly in hydrogen and wind power. The programme is designed not only to accelerate Brazil's domestic transition but also to position the country as a global leader in climate-aligned development.

While Brazil has made notable progress in sustainable finance, including the issuance of USD 4 billion in sustainability-linked bonds with plans for further annual issuance, our engagement focused on a new and innovative initiative: the Tropical Forest Forever Facility (TFFF). First introduced at COP28, the TFFF is expected to be formally launched at COP30 in Belém later this year. The facility aims to mobilise significant funding from both public and private sources to support the conservation of tropical forests. Allocation of funds will be performance-based, with forest protection outcomes monitored via remote sensing technologies.

The Brazilian authorities highlighted a key challenge in current conservation finance: the overreliance on grants, which are often unpredictable and subject to shifting political priorities in donor countries. To address this, the TFFF will be supported by a Tropical Forest Investment Fund (TFIF), which will raise sponsor capital and issue bonds in the debt capital markets. The TFIF's assets will be managed by professional investment managers with defined return objectives and climate-positive mandates. This structure is intended to provide a more stable and scalable source of funding for forest conservation, while also offering institutional investors a credible vehicle for climate-aligned investment.

During our discussions, the authorities expressed a strong interest in feedback from institutional investors, including Colchester, on both the investment structure and the governance of the facility. Topics under discussion included the appropriate balance between concessional and commercial capital, the role of multilateral development banks, and the mechanisms for verifying forest protection outcomes. We were encouraged by the government's openness to investor input and its recognition of the need for credible and transparent governance frameworks. We maintain our Financial Stability Score on the bonds and currency of -4 within our Emerging Markets program.

Mexico

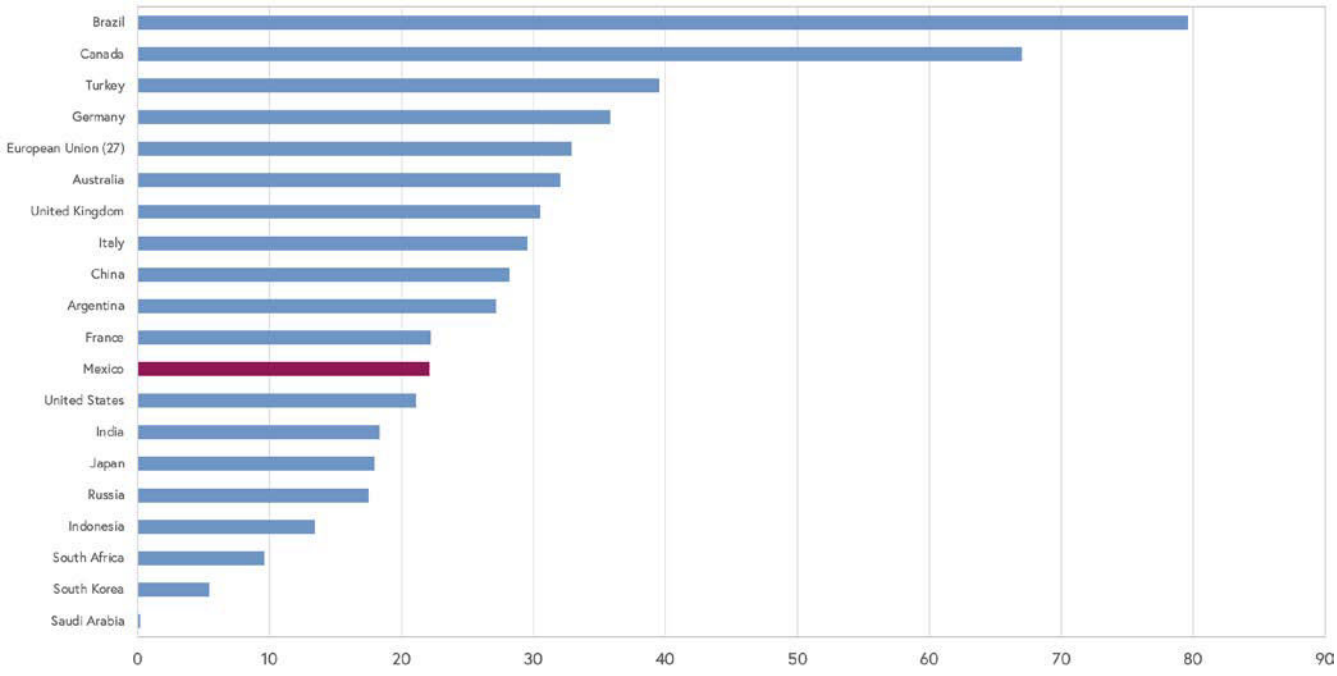
The election of President Claudia Sheinbaum in June 2024 was widely viewed as a potential turning point for environmental policy in Mexico given her strong sustainability credentials and track record as Mayor of Mexico City. During her tenure, she implemented a range of green initiatives, including the expansion of public transit, the development of cycling infrastructure, and the installation of solar panels. Since assuming the presidency in October 2024, her administration has announced an ambitious renewable energy agenda, targeting 45% of electricity generation from renewable sources by 2030 and committing to a national net-zero target by 2050. A key component of this strategy involves the decarbonisation of state-owned energy companies, most notably Pemex.

Despite these ambitions, our recent engagement with former government officials and policy analysts highlighted a number of challenges. Notably, the proposed federal budget for environmental programmes has been cut by nearly 40%, continuing a downward trend in environmental spending that has persisted since 2016. This reduction in funding has weakened the institutional capacity of key environmental ministries and regulatory bodies, raising concerns about the erosion of checks and balances within the governance framework. The centralisation of decision-making under the current and previous administrations has further compounded these issues.

One particular area of concern is the limited progress in expanding renewable electricity generation. At present, only 22% of Mexico's electricity is sourced from renewables, underscoring the scale of the challenge ahead. While international support—particularly from multilateral development banks and the European Union—has been directed toward electrification and clean energy initiatives, the government's continued support for fossil fuel-based state-owned enterprises has constrained the pace of transition.

We discussed the potential for greater private sector involvement in the energy sector as a means to accelerate renewable deployment and improve efficiency. The administration has signalled a willingness to allow increased private investment, though the policy framework remains unclear. In our view, a more defined strategy to attract private capital—particularly in grid infrastructure and clean energy generation—would help alleviate fiscal pressures and support the government's climate objectives.

Chart 2: Share of Electricity Production from Renewables (%)



Source: Ourworldindata.org, EDGAR Database. Data as of the end of 2022.

In conclusion, while the Sheinbaum administration has articulated a strong environmental vision, the reduction in public funding and continued reliance on fossil fuels present material risks to implementation. Our Global and Emerging Markets programmes maintain a Financial Stability Score of -1, which we deem appropriate. We will continue to monitor developments in Mexico's energy transition and engage with stakeholders to assess the credibility of the government's climate commitments and the evolving role of the private sector.

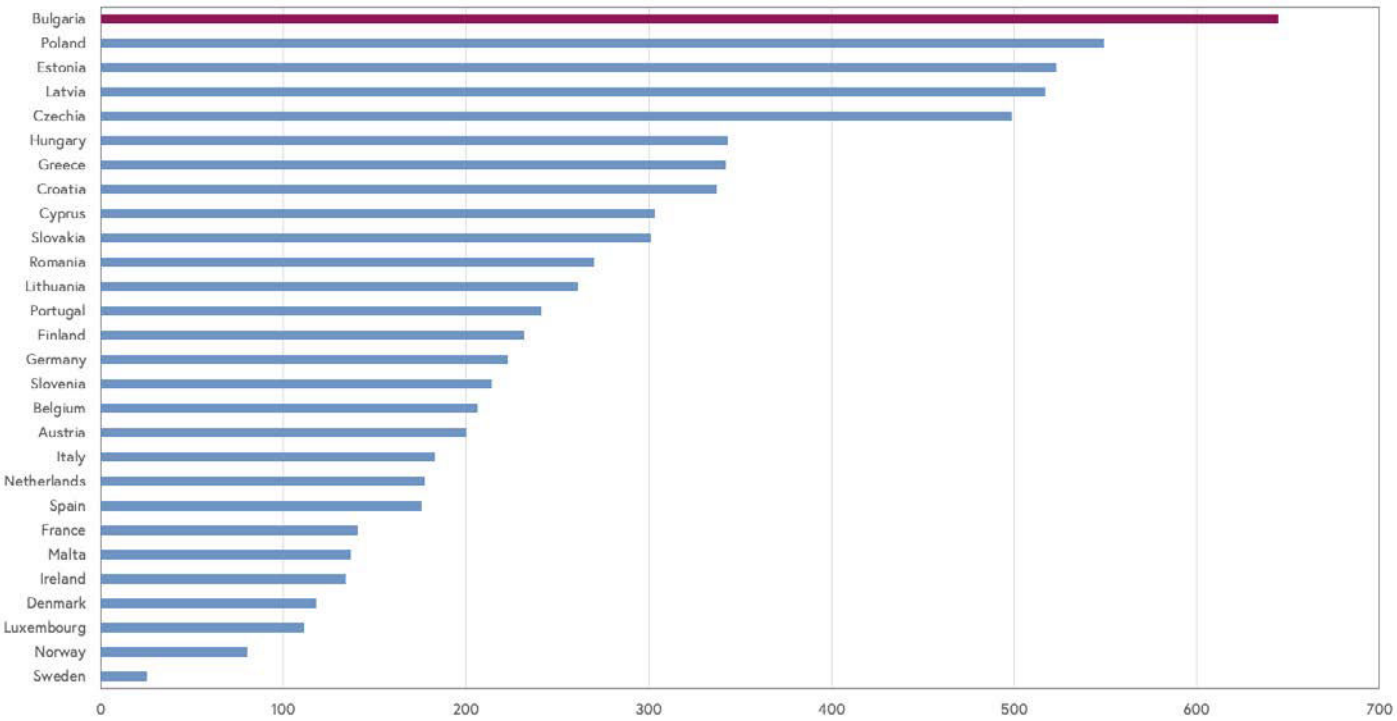
Bulgaria

Colchester recently conducted a research visit to Bulgaria where we met with officials from the Ministry of Finance to discuss the country's green transition, implementation progress under the EU Recovery and Resilience Plan (RRP), and broader social development challenges.

Bulgaria's RRP, valued at €6.17 billion in grants, or almost 6% of GDP, represents a significant opportunity to modernise the economy, enhance energy security, and promote social inclusion. The plan is particularly ambitious in its climate focus, with 57.5% of total funding allocated to climate-related objectives. Key initiatives include a binding commitment, by 2030, to reduce greenhouse gas emissions by at least 55% compared to 1990 levels; phasing out coal by 2038 through the full decommissioning of existing coal plants, with no new coal plants planned; and €1.5 billion in renewable energy investments.

While the authorities reaffirmed their commitment to these goals, they acknowledged that significantly reducing greenhouse gas emissions and a complete coal phaseout by 2038 remains challenging. No definitive timeline was provided, and we will continue to monitor progress in this area. This is particularly relevant given Bulgaria's status as the EU member with the highest net greenhouse gas emissions per unit of GDP.

Chart 3: Net Green Gas Emissions per GDP in the EU (tCO_2 per million euros, 2023. European Environment Agency.



The RRP also aims to reduce energy dependence on Russia, accelerate the deployment of digital infrastructure, and improve public services such as education, healthcare, and social protection. However, implementation delays have hindered progress. For example, officials mentioned that the absorption rate of EU funds for the 2021-2027 period currently stands at just 8.7%, a sharp contrast to the 98.8% achieved during the 2014-2020 cycle. We raised this issue during our engagement, and the authorities outlined several measures being taken to address the shortfall, including investments in administrative capacity, digitalisation, and the recent adoption of the Whistleblower Protection Act to strengthen governance and enforcement.

Beyond climate and infrastructure, the RRP also targets structural challenges such as institutional quality, corruption, labour market mismatches, and demographic pressures. Bulgaria's rapidly ageing population poses long-term risks to labour supply and economic growth. We discussed the government's efforts to address these issues, including targeted social investments and reforms aimed at improving transparency and competitiveness.

While Bulgaria is taking meaningful steps toward greater sustainability and resilience, several challenges remain. The slow pace of fund absorption and the ambitious nature of the green transition targets may delay implementation. Continued engagement will be important to assess the effectiveness of reforms and the country's ability to deliver on its commitments so we have kept our FSS unchanged at -4 within our Frontier Markets program.

Sri Lanka

Colchester conducted a follow-up engagement with the Sri Lankan authorities and industry stakeholders earlier this year, building on our previous discussions in May 2023. Our objective was to assess the country's progress under the IMF programme and evaluate the broader macroeconomic and governance landscape following the 2022 crisis.

To briefly recap, Sri Lanka defaulted on its external debt in 2022 after years of economic mismanagement, poor governance, and a series of external shocks. The crisis led to the ousting of the previous administration and the formation of a caretaker government, which secured a USD 1.34 billion IMF programme. Since then, the macroeconomic environment has stabilised, with inflation significantly reduced and fiscal consolidation broadly on track.

Table 1: Sri Lanka Balance Sheet

Metric[1]	2022	2023	2024e	2025f	2026f	IMF Target[3]
Primary Balance	-3.7	0.6	2.2	2.3	2.3	2.3
General Expenditure	18.6	19.4	19.3	20.4	19.8	-
General Revenue	8.4	11.1	13.7	15.1	15.3	15.0
Interest/Revenue (%)	77.8	79.9	57.1	51.0	45.1	-
Gross Government Debt	115.9	109.5	99.5	105.7	106.4	95.0

Source: IMF. Data as at April 2025. Notes: 1. All in % of GDP unless stated otherwise. 2. e = estimate, f = forecast. 3. IMF full programme.

A major political shift occurred in late 2024, with the National People's Party (NPP) securing a parliamentary supermajority and winning the presidency. While still early in its tenure, the new government has demonstrated a strong commitment to the reform agenda. Our engagement focused on the halfway point of the IMF programme and the country's progress toward key fiscal and structural targets.

Revenue mobilisation was a central theme of our discussions. Historically, Sri Lanka has struggled with low tax receipts, which—combined with high debt levels—has constrained fiscal space and elevated debt servicing costs. Encouragingly, the authorities have made meaningful progress toward the IMF's 15% of GDP revenue target. However, the projected gains for this year are largely dependent on renewed motor vehicle imports following the lifting of a multi-year ban. Officials indicated that year-to-date import volumes are on track to meet the 1.2% of GDP revenue contribution expected from this channel. Broader tax administration reforms are also underway, including tighter enforcement through bank account–linked tax identifiers and increased staffing at the Inland Revenue Department.

We also discussed the government's evolving approach to state-owned enterprise (SOE) reform. Unlike the previous administration, which favoured privatisation of non-strategic assets, the current government is pursuing a holding company model—similar in concept to Singapore's Temasek—to consolidate and professionalise oversight of the country's 500+ SOEs. While the approach is still being formalised, with enabling legislation expected later this year, the authorities emphasised their intention to improve governance and selectively utilise public-private partnerships (PPPs).

Governance reform and anti-corruption efforts remain a key focus. The 2023 passage of the Anti-Corruption Act marked an early milestone, and a new National Anti-Corruption Action Plan was launched in April 2025. Private sector stakeholders we spoke with noted a tangible improvement in the ease of doing business, although they cautioned that reforms have so far been top-down in nature. Embedding these changes more deeply across institutions will take time.

In summary, Sri Lanka has made notable progress in stabilising its economy and advancing structural reforms under the IMF programme. Fiscal consolidation, improved revenue performance, and a renewed focus on governance have helped restore a degree of macroeconomic stability. However, the durability of these gains will depend on continued reform momentum and institutional strengthening. The Financial Stability Score for Sri Lanka was kept at -8 for both bonds and currency within our Frontier Markets program.

Industry Collaboration

Colchester continues to play an active role in advancing sovereign ESG integration through industry-level collaboration. One of our prominent contributions remains our participation in the ASCOR initiative, which we co-chair.

The ASCOR framework now covers 70 countries representing over 85% of global emissions and 90% of global GDP, and includes all sovereigns in major bond indices such as the FTSE WGBI = World Government Bond Index, Bloomberg Global Treasury Index, and JP Morgan GBI-EM = Government Bond Index - Emerging Markets Global Diversified. This expansion reflects growing investor demand for robust, comparable sovereign climate data that supports more informed decision-making in sovereign debt portfolios.

To support broader understanding and adoption of the ASCOR framework, the Transition Pathway Initiative Centre launched the ASCOR Explainer Series in early 2025. This 14-part video series, featuring analysts from the TPI Centre and ASCOR co-chairs—including Colchester's Claudia Gollmeier—provides concise overviews of each ASCOR indicator. Topics range from emissions pathways and climate legislation to carbon pricing, just transition planning, and renewable energy opportunities. The series is designed to help investors, issuers, and policymakers understand how sovereigns are assessed and why each area matters for climate performance.

In parallel, the ASCOR in Action initiative showcases how investors are using ASCOR data to inform engagement strategies and portfolio decisions. Case studies highlight practical applications of ASCOR metrics in sovereign bond analysis, including how data on climate spending transparency and fossil fuel phaseout policies are being integrated into ESG frameworks. These resources are helping to bridge the gap between assessment and implementation, encouraging more targeted and constructive dialogue with sovereign issuers.

Colchester remains committed to supporting ASCOR's development and dissemination. We continue to contribute to methodology refinement, participate in regional roundtables, and promote issuer engagement. Furthermore, we are pleased to share that we joined the PRI Collaborative Sovereign Engagement on Climate initiative in Japan and Canada.

The following table summarises our 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 has been 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 June 2025

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