Colchester
GLOBAL INVESTORS

ESG Engagement Report

June 2024

Introduction

In our previous engagement reports we noted the transition away from fossil fuels might be more challenging as countries struggled with economic headwinds and the disruptions caused by climate change. Of particular note, fiscal headroom would be less as countries coped with the higher cost of living and the increasing costs associated with both the physical and economic disruption of increasing climatic events. Not only are food prices more exposed to such events, adversely impacting upon poor countries in particular, but also global supply chains, have been impacted by the increased frequency and severity of extreme weather events[1]. Some relief may be in sight as we forecast the disinflationary process to continue albeit at varying degrees and speeds across different markets. Assuming a more stable economic environment can be sustained going forward, this is likely to provide greater capacity for governments to allocate more funds towards transition finance and promote private sector initiatives.

Our Contributions...

Increasing the provision of **climate finance**, may be achieved by designing new innovative financial products, or via the continued growth in the sustainable or environmental, social and governance bond market. Both avenues provide issuers with a means of accessing capital from private investors to facilitate their future transitions. At Colchester we support this journey via our **Global Green Bond Fund**[2] offerings, where 100% of the fixed income exposure is invested in Green bonds whose proceeds are used to fund projects that benefit the environment.

As sovereign experts, we at Colchester take our responsibilities seriously to contribute to both the intellectual and practical developments in this segment of the market. We continue to assist, develop and lead initiatives aimed at enhancing industry understanding of the issues, challenges and potential opportunities in this arena, both for investors and issuers. The former is best demonstrated by our active participation in a range of industry initiatives, while the latter is seen in our ongoing engagement activities. While the two are intertwined, our engagements with sovereign issuers in particular are an important avenue for us to share our concerns and opinions, discuss best practices and explore alternatives.

We believe we are making a real contribution by continuing as co-chair of the **Assessing Sovereign Climate-related Opportunities and Risks (ASCOR)** framework initiative. Colchester has joined forces with global investor networks, asset managers, and asset owners in the ASCOR initiative to deliver the first 25 pilot countries' results in December 2023. 70 countries will be assessed by the end of 2024. These 70 countries will cover 100% of the countries included in the FTSE World Government Bond Index (WGBI), Bloomberg Global Treasury Index and JP Morgan Government Bond Index Emerging Markets (GBI-EM) Global Diversified and 85% of the countries included in the JP Morgan Emerging Markets Bond Index (EMBI) as well as 70% of those in the FTSE Frontier Emerging Markets Government Bond Index[3].

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[1] How climate change worsens heatwaves, droughts, wildfires and floods - BBC News

[2] Colchester has four funds – two are within our Irish UCITS complex, one is domiciled in Australia and the last is domiciled in New Zealand. The two UCITS funds are classified as Article 9 under the Sustainable Finance Disclosure Regulation (SFDR). The Australian and New Zealand funds are managed in an equivalent way to the two UCITS funds.

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

The ASCOR tool may:

- Assist in assessing climate risk in sovereign debt analysis.
- Provide a productive dialogue & engagement with sovereign issuers.
- Enable regulatory reporting.
- Facilitate transition funding by issuer credibility assessment of sovereign sustainability-themed bonds.
- Support corporate climate risk assessment with insights on country risk.
- Guide investment goals and portfolio alignment, for example using ASCOR data with the 2.0 Net Zero Investment Framework (NZIF)[4].

Our engagements in the first half of 2024 have been with both issuers and industry. The highlights discussed in this report include:

Country engagement examples for India, Indonesia, Ireland, Kazakhstan, Singapore and Vietnam.

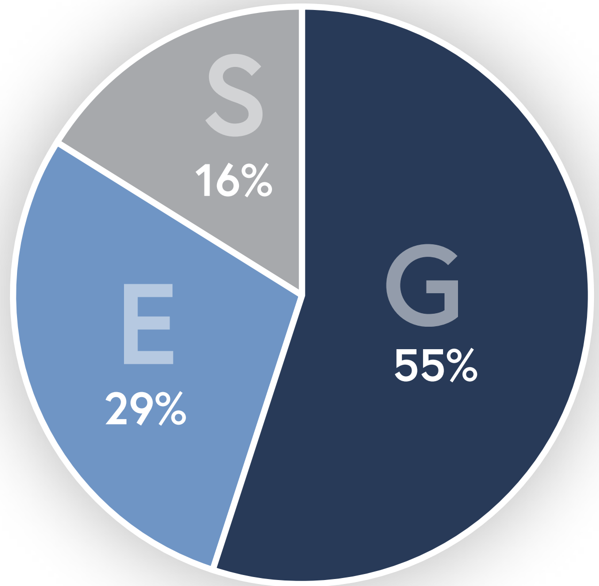
A progress update on the ASCOR Project, and

Our other collaborations with industry-level peers.

[4] https://transitionpathwayinitiative.org/publications/76/show_news_article

Summary of Engagements: H1 2024[5]

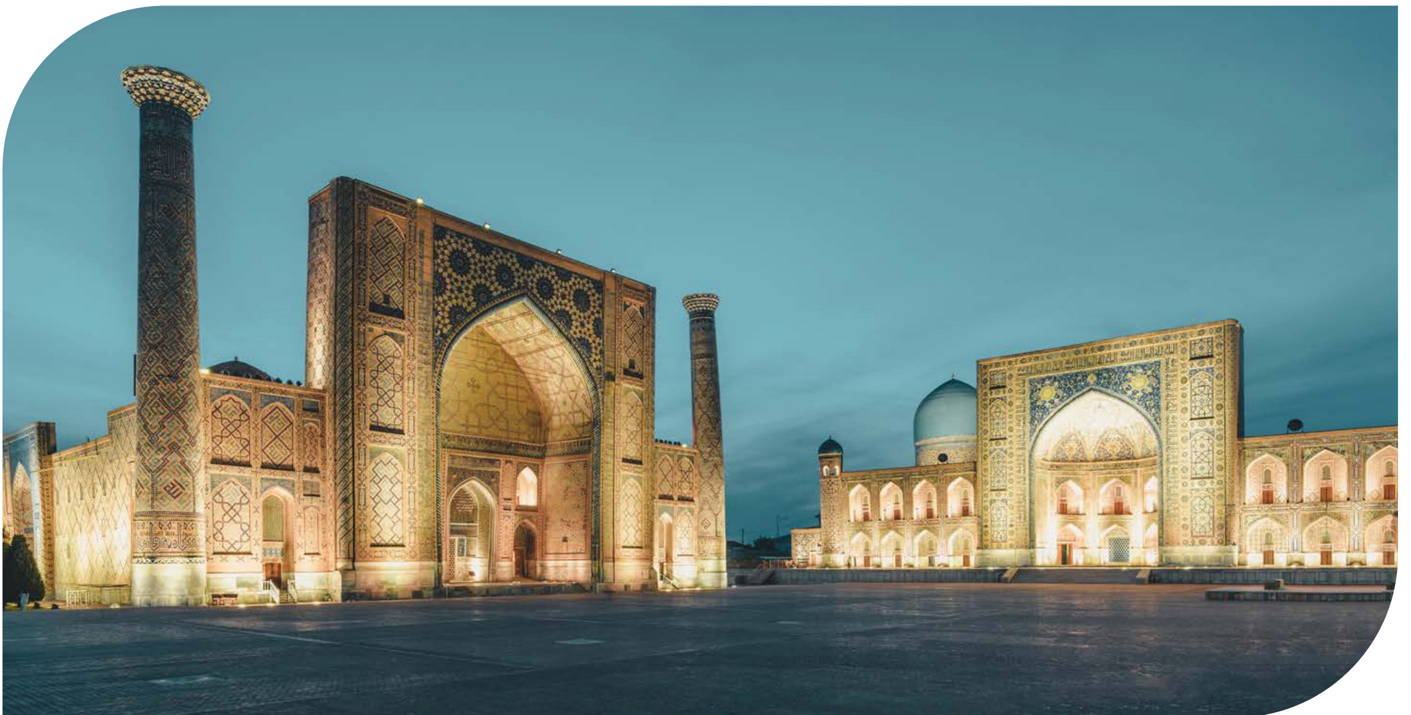
46 Engagements and 69 Issues



72% of engagements with relevant government officials

24% of engagements are Industry-level collaborations

4% of engagements are with non-Issuer Stakeholders



[5] Engagement period ending 30th June 2024

Global Bond Strategy Engagements

Singapore

We discussed the development of Singapore's green bond market and the green transition to achieving their climate pledge with the Singaporean authorities.

Singapore issued its inaugural green bond in 2022 with a long tenor of 50 years. A total issuance cap has been set at S$90bn (18% of GDP), of which S$15.8bn has been issued so far. Moreover, they have committed to issuing S$35bn in total by 2030. Green bonds are issued as a subset of the infrastructure category of Singapore Government Securities (SGS) and are conventional in structure, adhering to the International Capital Market Association (ICMA) green bond framework principles. In late 2023, Singapore unveiled the Singapore-Asia Taxonomy for Sustainable Finance, which seeks to clarify how activities and projects may be considered "green" or "transition" related, utilising a traffic light system to describe alignment. In our opinion this is a pragmatic approach to credible allocation of funding to further transition efforts.

Project selection was noted to be the strict purview of the Ministry of Finance (MoF), supported on an inter-governmental basis. For example, research being undertaken by PUB (the national water agency) into the impacts of a rise in sea levels and potential costal defence infrastructure investment will be directly considered in the decision-making process for future projects, subject to the alignment with the green bond framework and taxonomy. However, the authorities pointed out that some green projects will continue to be funded via standard SGS issuance i.e. not using green bonds. Singapore's use of government debt is rather different from most nations, in that they do not use the proceeds for day-to-day spending as a rule, but instead use the proceeds for either "green" infrastructure investment or simply to build-out the local bond market. There are also strong legislative guardrails in place to maintain fiscal prudence and to ensure debt sustainability.

The detailed first allocation and impact report in September 2023 showcases the public transport project that supported the inaugural green bond, building out Singapore's already strong MRT rail network and bringing the country closer to its goal for 80% of households to be within a ten minute walk of a train station. To date 30% of the proceeds have been used on this project, while the remaining 70% is to be allocated by the end of the 2024 fiscal year. It is expected that the full amount (S$1.7bn) will be used for the project. The authorities emphasised that their green bond curve will remain long-dated for the foreseeable future, citing the very long-term nature of the underlying projects. The request for building out the green bond yield curve as an active investment manager was raised and we welcomed the issuance of a 30-year green bond earlier this year.

Other topics discussed with the Singaporean authorities included the carbon tax policy, which was implemented in 2019 and increased in January 2024 from S$5/t$CO_2$e to S$25/tCO_2e. It will increase to S$45/t$CO_2$e in 2026/7 before reaching S$50 to S$80/tCO_2e by 2028[6]. This is an important market tool to be used in conjunction with government green financing to assist Singapore on its transition journey, impacting both consumers and businesses. We also discussed a range of technical carbon tax questions focusing on the intended use of proceeds, and the expected impacts on inflation and debt sustainability. We will continue our dialogue with the authorities as some of the details are ironed out, especially to gain a better understanding of the inflationary implications.

In summary, we are highly encouraged by Singapore's clearly defined and governed green transition plans and remain confident in our maximum financial stability score (FSS) of +4 for Singapore.[7]

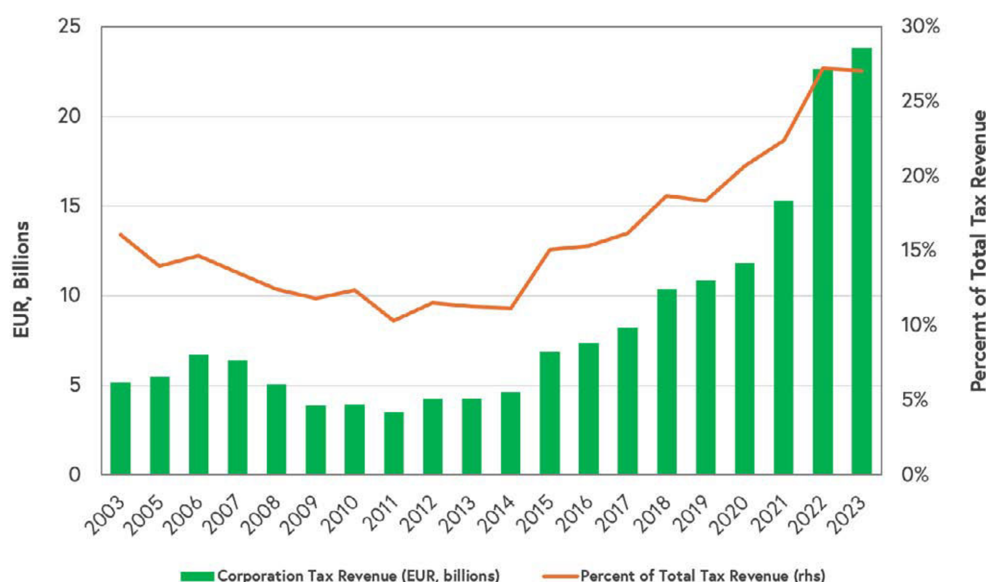
Ireland

We met with Ireland's National Treasury Management Agency (NTMA) to discuss the increase in corporate tax revenues experienced by the Irish government in recent years, the vulnerabilities associated with those revenues, and long-term plans to save part of this windfall to meet future liabilities such as those associated with ageing, climate transition and infrastructure.

The economy in Ireland has shown continued resilience in the post pandemic era and the fiscal position has strengthened considerably on the back of strong tax revenues. Ireland now has the largest fiscal surplus compared to its regional peers and a very low level of government debt as a percentage of GDP (41%). However, this is a somewhat misleading picture as Ireland's GDP data is distorted by its very large and profitable foreign-owned corporate segment[8]. This may be a source of potential vulnerability.

Ireland's corporation tax revenue has surged in the past decade and in 2023 revenues from corporation tax were EUR23.8bn, 458% higher than the amount in 2013. Besides providing a windfall for the Irish sovereign, this change has increased the concentration of Irish tax revenue. Corporation tax contributed 11.3% of total tax revenues in 2013 but contributed 27.1% in 2023.

Chart 1: Ireland's Corporation Tax Revenue



Source: Irish Authorities

[6] https://www.nea.gov.sg/our-services/climate-change-energy-efficiency/climate-change/carbon-tax

[7] Colchester's Financial Stability Score (FSS) reflects our assessment of balance sheet strength and ESG considerations. A positive score enhances investment value within our investment framework, while a negative score detracts.

[8] A more appropriate metric is Debt/GNI* which is 72%. GNI* is Modified Gross National Income, an indicator generated by the Irish Central Statistics Office to measure the size of the Irish economy by excluding globalisation effects.

This backdrop generates a number of risks for Ireland's public finances, including the volatility of corporation tax revenues, the concentration risk (some 40% of corporation tax, just over 10% of all tax revenue was paid by three companies in 2023)[9], and the implications of international tax reform. Whilst there are legitimate concerns around the vulnerability of Ireland's balance sheet, it is worth considering the global context.

The OECD's initial Base Erosion Profit Sharing (BEPS) measures, agreed in 2015, were a significant package of international tax reform. Without getting into the technical detail, the net result was, contrary to many expectations, a significant boost for Ireland's corporation tax revenues. A key principle of the reforms was that multinational corporations should book profits in jurisdictions where they have substantive real operations and activities. Given many multinationals (particularly US tech and pharma companies) do have material operations in Ireland, they shifted huge quantities of intellectual property assets to Ireland from tax havens in other parts of the world.

Recognising the inherent vulnerability of corporate tax revenues, the government has proposed two new funds to mitigate the risks to the public finances arising from excess corporation tax. These savings funds are in the final stages of legislation and are the Future Ireland Fund (FIF) and the Infrastructure, Climate and Nature Fund (ICNF). The FIF is to be a long-term savings fund to help deal with anticipated future expenditure pressures including ageing, climate and digital transitions. The ICNF's mandate is to support the Irish state in meeting infrastructure and green climate needs.

Ireland also launched a Green Bond programme in 2018 and its latest allocation report has been released in September 2024. NTMA advised that further green bond issuance is unlikely in 2024, whilst the majority of green bond funding in recent years has been allocated to clean transportation and sustainable waste and wastewater management. In Colchester's opinion, the focus of the government in the years to come should be on increasing the proportion of electricity production from renewable sources. Its target is 80% by 2030 but this looks ambitious on current trends.

In conclusion, we acknowledge the prudent steps the Irish authorities are taking to reduce the vulnerability of the public finances to the vagaries of global corporate profits and international tax reform. Nonetheless, the scale of the fiscal surpluses creates political pressure to increase spending. Using some of the corporate tax revenues to mitigate and adapt to climate change is a responsible and positive approach. Whilst the balance sheet of the sovereign is not as healthy as the headline numbers may suggest, the current Colchester financial stability score of -2 is deemed appropriate for now, but continued fiscal strength may lead to upgrades in our assessment.

[9] Source: Irish Authorities

Emerging Markets Strategy Engagements

India

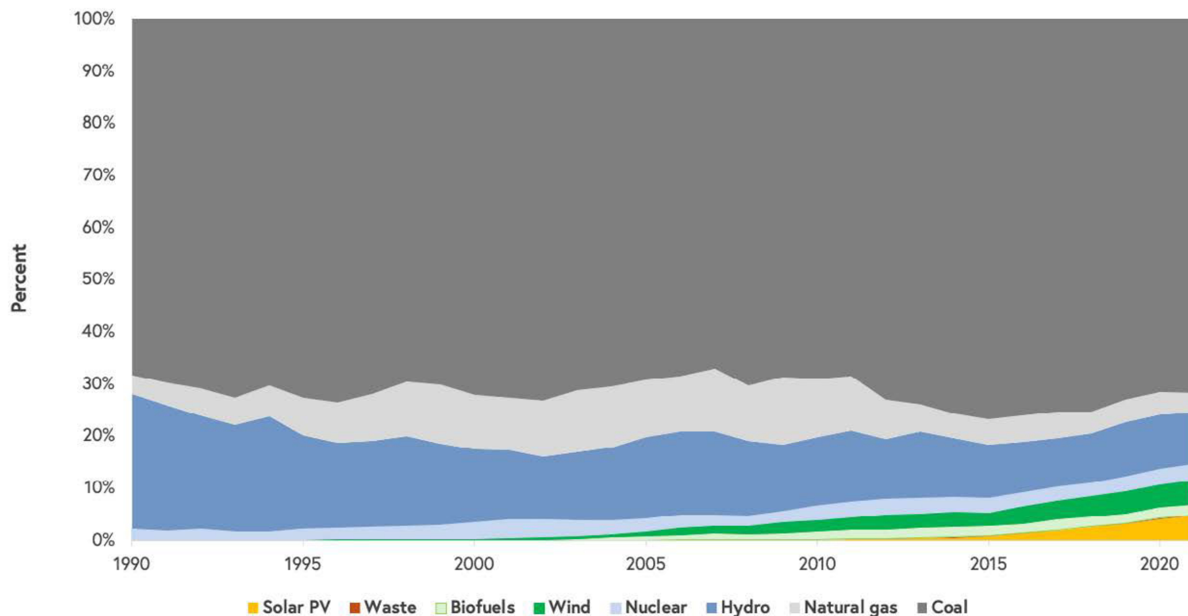
India has been receiving a lot of positive attention this year on account of its high economic growth rates, and recent inclusion in the JPM GBI-EM Global series of indices for local currency debt. As a large developing economy with over 1.3 billion people, India has an important role to play in the global effort to decarbonise. Currently one of the largest emitters of greenhouse gases globally, India's energy demand and expected emissions trend is expected to increase rapidly as the middle class expands and the country continues to industrialise. This is evident when we look at ASCOR's assessment of India's Emission Pathway shown in Chart 2. India's emission trend is projected to fail the Paris Agreement's goal of limiting warming to 1.5°C and isn't ambitious enough relative the country specific benchmark. Given this assessment we engaged with the Indian authorities to better understand their approach to meeting their climate pledge of 2070.

Chart 2: India's historical, targeted and benchmarked emission pathways based on ASCOR's framework

Source: ASCOR, as of October 2022

Note: Targeted future pathways are included only for absolute production-based emissions excluding emissions from land use, land use change and forestry (LULUCF) as this is the basis on which 2030 targets are assessed. Pathways end in 2030 because long-term net zero targets are often stated on a different emission boundary from the one considered in the 2030 target assessments (e.g. including only CO_2 emissions rather than all Kyoto greenhouse gases). The National 1.5C benchmark is a country-specific benchmark sourced from the 1.5°C National Pathway Explorer hosted by Climate Analytics (Gidden, 2019). This benchmark is used to evaluate whether a country's 2030 target is sufficiently ambitious to limit global warming to 1.5°C.

Chart 3: India's Electricity Mix by Fuel



Source: IEA Data Services. Data from 1990 to 2021.

The power sector is a key contributor to India's carbon emissions. Electricity generation accounts for almost 40% of total emissions in the country. This is largely due to the role of coal in the sector, which accounts for over 70% of electricity output (refer to Chart 3). During our meetings, it was indicated that coal use for electricity will remain a primary energy source for at least another decade, but technological developments are in place to enhance the efficiency of existing coal-fired power plants. Policymakers also emphasised the government's focus on increasing the contribution of renewables in the overall energy mix from non-fossil sources to 50% of all capacity (from the present 42% level) and installing 500 GW of renewable energy capacity by 2030 to meet the country's net zero goal by 2070.

The government has established policies and initiatives to support growth in the renewable sector. An example of this is the Production-Linked Incentive (PLI) scheme for the solar industry, which provides subsidies to domestic manufacturers of integrated solar panels. The PLI scheme aims to build up India's domestic manufacturing capabilities and reduce reliance on imports.

Another important initiative discussed during the meetings included the recent revision to the nation-wide Carbon Credit Trading Scheme (CCTS). The CCTS aims to establish the country's own domestic carbon market for generating and trading carbon credits. The CCTS will have both a mandatory emissions intensity scheme, with hard to abate sectors notified of their emissions targets, and a voluntary mechanism for other sectors. The CCTS will provide a market mechanism to reduce emissions as well as to support innovation in emerging emissions-reduction technologies, with the compliance segment expected to commence in 2025-2026.

Colchester's engagement with policymakers furthered our understanding of the progress that the Indian government is making towards meeting its ambitious climate goals. Whilst the government remains committed to their renewable energy targets and the establishment of a national carbon market, the lack of commitment in phasing out the production and use of coal remains an area of weakness. We will continue to monitor the country's progress. At this point of India's economic, social and climate transition we apply a financial stability score of -2.

Indonesia

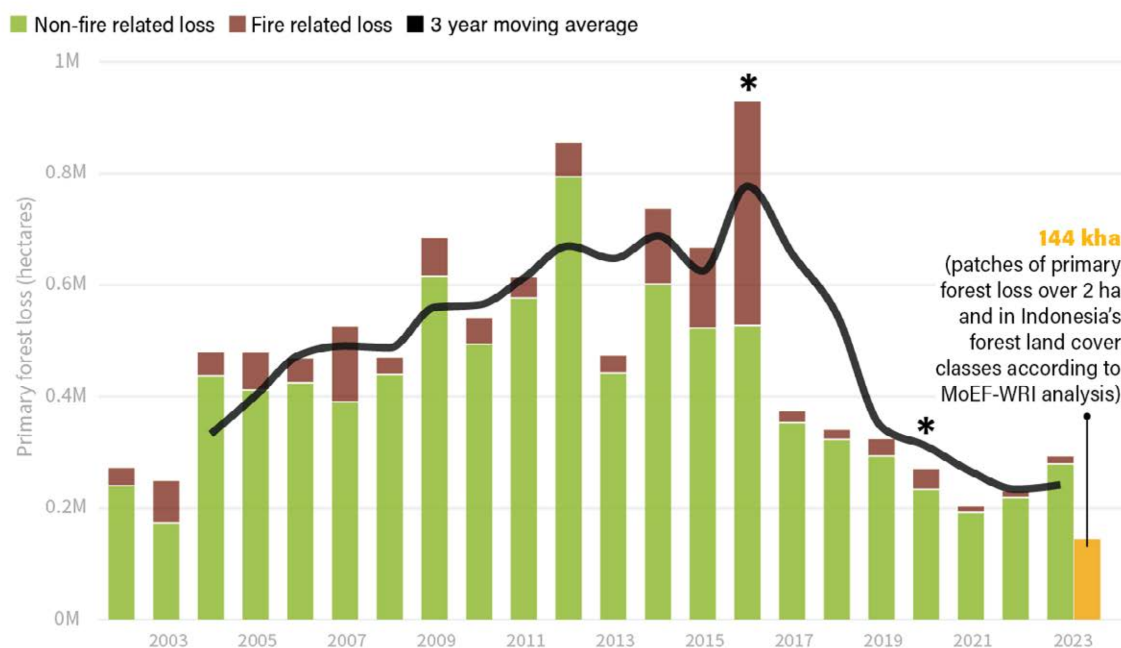
Over the years we have engaged on multiple topics with the Indonesian authorities and local stakeholders either collaboratively or on a one-on-one basis. Some of our industry collaborative initiatives include the support of the Investor Policy Dialogue on Deforestation (IPDD) on Indonesia, being a member of the Emerging Market Investor Alliance (EMIA) Indonesia working group, and as noted above being an active participant in the ASCOR project that looked at Indonesia.

Whilst Indonesia held presidential elections on 14th February 2024, with Prabowo Subianto of the Gerindra party winning the first round of the election with 58.6%, this hasn't impeded us from engaging with stakeholders. It is widely expected that the main policies of the incoming government in October 2024 will be consistent with and continue those of the outgoing president Joko Widodo.

During our recent research trip we wanted to understand the progress on deforestation and its commitment to its 2060 climate pledge.

On the deforestation: by way of background Indonesia signed the declaration calling for an end and reversal of deforestation by 2030[10]. As shown in Chart 4 notable progress has been made in slowing the pace of deforestation in Indonesia since 2015. We are encouraged to see the improved statistics notwithstanding a slight uptick in 2023[11].

Chart 4: Indonesia's forest loss over time



*Much of Indonesia's 2016 fire loss was actually due to burning in 2015. Burned lands were detected late because of insufficient clear Landsat images at year's end (the same is also true to a lesser extent for 2019 and 2020).

Much of the primary forest loss in Indonesia according to the GFW analysis is within areas that Indonesia classifies as secondary forest and other land cover (e.g., mixed dry land agriculture, estate crop, plantation forest, shrub and others). This is because the GFW primary forest definition is different than Indonesia's official primary forest definition and classification. GFW's statistics on loss of primary forests in Indonesia are therefore considerably higher than the official Indonesian statistics on deforestation in primary forest.

As of 2023.

WORLD RESOURCES INSTITUTE

[10] Final_IPDD-Deforestation-Report.pdf (tropicalforestalliance.org), p.21 & 42

[11] Forest Pulse: The Latest on the World's Forests | World Resources Institute Research (wri.org)

With regards to Indonesia's decarbonisation efforts, the country has set a 2030 emissions reduction target as per its Nationally Determined Contribution (NDC)[12], but its 2030 target isn't aligned with its 1.5 °C benchmark, according to ASCOR indicators[13]. One of the issues for Indonesia is that 84% of its primary energy supply in 2021[14] came from fossil fuel. Furthermore, the expansion of the nickel extraction mining industry which plays a major role in the economic growth engine for Indonesia and is crucial for the global energy transition, has led to an increase in the use of coal and energy intensive infrastructure again.

On the positive side, we learnt that Indonesia is committed to the Just Energy Transition Partnership (JETP) that was initiated in November 2022. Under that initiative the International Partners Group (IPG) pledged US$20 billion to expedite Indonesia's energy transition in particular, with a focus on reducing the coal power sector.

The IPG consists of the governments of Japan and the United States, who are co-leaders of the partnership, and Canada, Denmark, the European Union, Germany, France, Norway, Italy, and the UK.

The recently published Comprehensive Investment and Policy Plan (CIPP) under JETP will help the country to meet its climate goals and will be a "living document" to track progress and reflect market developments and policy priorities[15].

Another important tool to foster the country's net zero emissions commitment by 2060 is via the carbon tax scheme which was implemented in September 2023 by the Indonesian Stock Exchange. Under the scheme, corporations that exceed their carbon quotas can purchase carbon credits from industries that emit pollution below a government-set limit or from renewable power plants. Carbon trading is initially being applied to coal plants that produce at least 100 megawatts of power and are connected to the state's primary electrical grid. This accounts for around 86% of the country's coal capacity. It was noted that this will gradually extend to other sectors such as forestry, agriculture, waste management, and industrial processes by 2025, assuming the sectors are ready. Another source which will assist in the transition to a lower carbon economy is via the sovereign sustainability-themed bonds. In this context, we have suggested that the authorities consider issuing local (IDR-denominated) green sovereign bonds, instead of limiting themselves to hard currency bonds, as this would broaden their investor base.

In conclusion we are encouraged by the authorities' steps taken in achieving their climate pledges so far and will continue monitoring progress and keep the dialogue with the various stakeholders. The government's clear commitments in this arena together with the country's solid balance sheet gives us confidence that our financial stability score of -2 is appropriate for Indonesia at this point.

[12] Microsoft Word - ENDC Indonesia.docx (unfccc.int)

[13] https://transitionpathwayinitiative.org/ascor/indonesia

[14] Indonesia's Energy Support Measures (iisd.org)

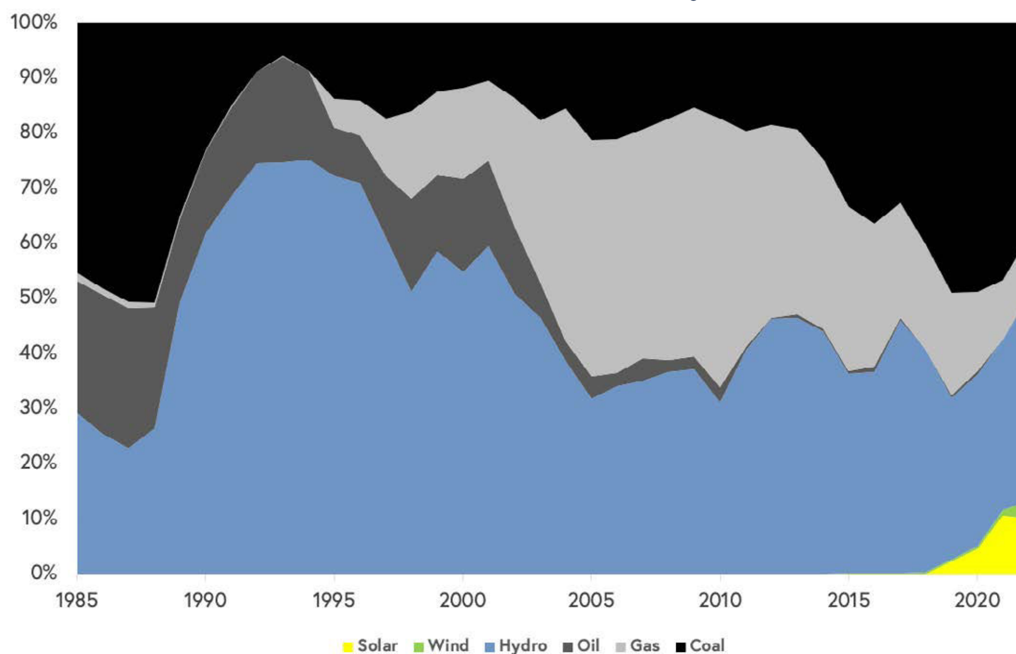
[15] https://jetp-id.org/storage/official-jetp-cipp-2023-vshare_f_en-1700532655.pdf

Frontier Markets Strategy Engagement

Vietnam

Vietnam has been one of the most notable economic success stories of the last 20 years. The foundations of this success were laid in the early 1990's when the government started market orientated economic reforms. With the rapid economic growth in the country the demand for electricity also rose exponentially. Unfortunately, not all of this increase in electricity production came from green sources. The mix of energy sources used to produce electricity in the country are shown in Chart 5.

Chart 5: Vietnam's electricity mix



Source: Our World In Data. Data from 1985 to 2022

Vietnam has pledged to become carbon neutral by 2050. This is a difficult target for many countries, but it creates even more problems for less developed countries like Vietnam, where despite their recent economic achievements they are still a relatively poor country. We wanted to understand the challenges and potential solutions for this during our engagement work. The Glasgow Financial Alliance for Net Zero (GFANZ), also known as the International Partners Group (IPG), was created to intend to help fund green transition schemes in emerging countries. The IPG is made up of the G7 and a handful of other developed countries such as Denmark and Norway. In 2022, the Just Energy Transition Partnership (JETP) for Vietnam was formed as a collaboration between the IPG and the Vietnamese government to help the country on its path to net zero. Both the World Bank and the Asia Development Bank (ADB) have pledged to help fund the JETP in Vietnam[16], but the program is currently in its infancy. The ADB is working to commit up to US$1billion of concessional financing (i.e. sovereign guaranteed) and up to US$1.1 billion of non-sovereign financing including co-financing.

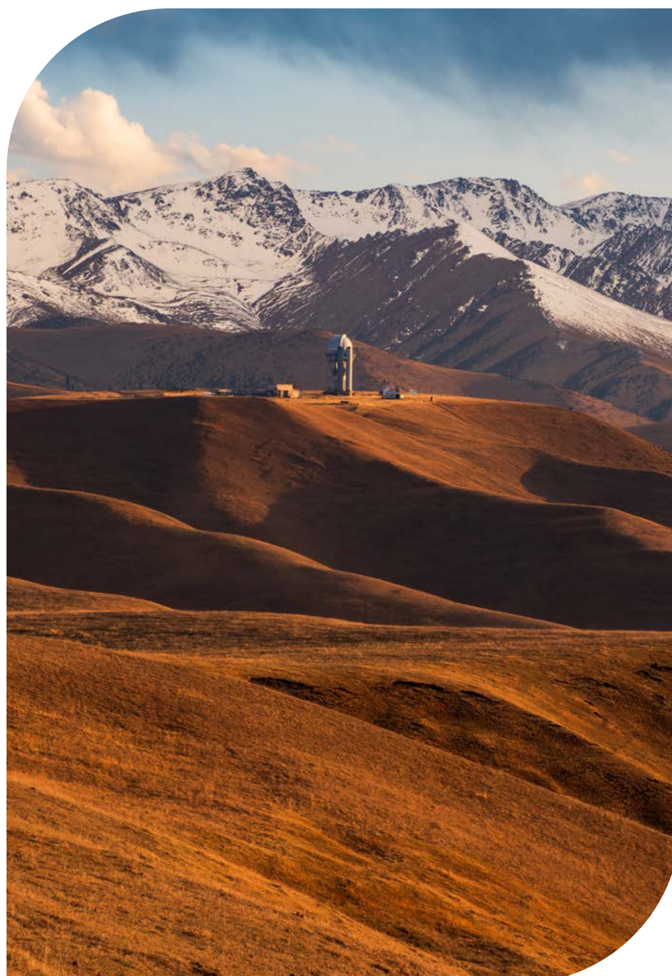
[16] https://seads.adb.org/report/energy-transitions-viet-nam-and-indonesia-building-blocks-successful-just-energy-transition

During our meetings it was noted that Vietnam has enough energy to meet current demand, but a lot of this, and especially the green energy production sites, are in the south of the county. This led to power shortages in 2023 as the power grid was struggling to move the electricity to the north. By improving the grid, the need for new power plants could be reduced. It was also noted that over recent years energy usage had been increasing at around 8-9% per annum, but economic growth was lower at around 6.5%. Thus, the energy intensity of growth may potentially be higher than it should be. Another area discussed where potential improvements could be made was the infrastructure that moved goods around the country. Currently there is an overreliance on roads, which is more carbon intensive than either rail or waterways.

Although the JETP for Vietnam is still a relatively new development, it does offer the potential to help with the journey to carbon neutrality for the country. Clearly more work is needed to make this a reality as from what we could tell there is currently no clear roadmap of next steps. However, if this project does turn into a success, it could be a blueprint for use in other countries. As such, we will continue to monitor the country's progress and maintain our financial stability score at -4.

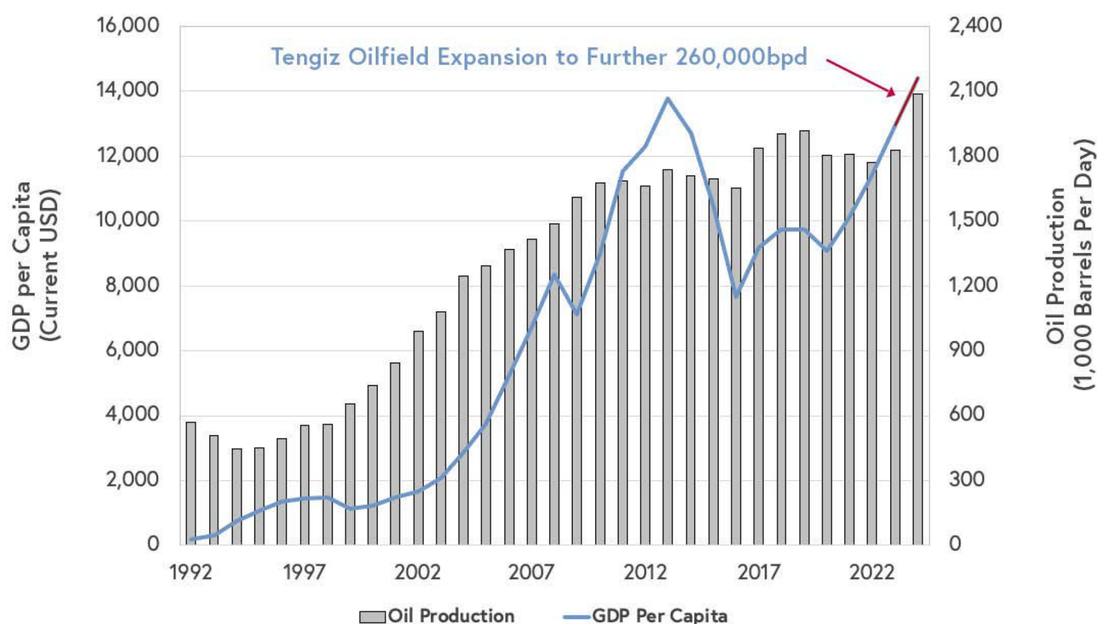
Kazakhstan

We visited Kazakhstan in early 2023 to engage with authorities and private institutions on issues surrounding the dependence on fossil fuels. Earlier this year we followed up on the decarbonisation progress within the country. While there appears to be a firm commitment to diversify away from fossil fuels and hence to a lower carbon economy, the country continues to expand its fossil fuel footprint. Given the country's dependence on energy extraction and historic investment in the sector the transition will be difficult for Kazakhstan. We therefore believe that the implementation of Kazakhstan's clean energy commitments will take time and need careful ongoing monitoring.



The diversification away from fossil fuels represents a significant challenge for Kazakhstan as large amounts of capital have already been committed to the expansion of a number of large oil fields. This in turn will bring the country foreign currency income, which is supportive to both the government finances and the external balances. The expansion of the Tengiz oilfield – already the country's largest oil producing oilfield – will allow a further 260,000 barrels of production per day which is a notable expected jump in overall output. It will take until 2026 for the increase in production to fully come online.

Chart 6: Kazakhstan: GDP Per Capita and Oil Production



Source: IMF Database (October 2023), BP Statistics Review of World Energy 2022.
Oil Production Estimates for 2023 www.statista.com and 2024 www.naturalgasworld.com

During our meetings we were encouraged to learn about the progress being made in their 2060 carbon neutrality commitment. This included the ongoing auctioning of green energy projects to private companies and the recognition that further improvement was needed to better align the private sector and Public Private Partnership (PPP) to improve progress. Furthermore, when looking at the ASCOR framework, Kazakhstan's authorities have implemented climate policies with adequate accountability elements.

One major obstacle for the country's green transition continues to be the electricity transmission as much of it is still based on the Soviet electricity grid that was built in the 1960's and 1970's. The aging infrastructure is struggling to cope with increased energy demands, and new investment is required to connect the 'green energy' sites. It is encouraging that the country recently launched the National Development Plan "Kazakhstan-2029," which aims to attract at least US$150 billion of foreign investment for green projects by the end of the decade. During our engagements it was emphasised that significant investment in energy transmission and logistics are needed, which would likely require further PPP investment and a change in tax policy, which is expected to be addressed in the 2029 Plan. It was also noted that further improvement is needed in the coal sector where many coal power generation plants are still using aging Soviet equipment which needed to be replaced. It is unlikely that Kazakhstan will be able to move away from using coal soon, but plants can be retro-fitted with improved filtration systems to reduce their environmental impact.

As we concluded in our January 2023 engagement report, we recognise that Kazakhstan's diversification away from fossil fuels presents a significant challenge given the large fiscal dependence on the sector, especially with over 80% of Kazak oil being exported. However, the country has made a commitment to a lower carbon economy and implemented climate policies, which we would like to see more progress in. The sustainable clean energy projects are encouraging, but more progress needs to be made in achieving the sustainability pledges, and the lack of economic diversification may lead to balance sheet concerns in the future. That said, Kazakhstan has currently a solid government balance sheet, with very low levels of government debt (gross government debt to GDP was only 23% at the end of 2023) and we will continue to keep the open dialogue with authorities. As such, we maintain our financial stability score at -3.

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 in the table on page 17, we are most proud of our involvement in the ASCOR project over the past 6 months. We have been integrally involved in its development and supported the ASCOR tool launch in February 2024 via participation in webinars and by moderating several regional ASCOR roundtables. The tool indicates that 14 of the 25 pilot countries have decreased emissions over the past five years and 13 have passed climate change into law. More needs to be done as only 4 of the 25 assessed pilot countries were found to have emission reduction targets aligned with a 1.5C pathway, when population, income and historical emissions are taken into account.

ASCOR tool webinar launch February 2024 with Claudia Gollmeier, Head of Investment APAP & MEA, Managing Director (Singapore)

The London School of Economics (LSE) and Transition Pathway Initiative (TPI) team will assess 70 countries by the end of this year, which will cover 100% of the countries in the FTSE World Government Bond Index (WGBI), Bloomberg Global Treasury Index and JP Morgan Government Bond Index Emerging Markets (GBI-EM) Global Diversified and 85% of the countries in the JP Morgan Emerging Markets Bond Index (EMBI) as well as 70% of those in the FTSE Frontier Emerging Markets Government Bond Index[17].

As asset owners are looking for sovereign net zero portfolio alignment, the Institutional Investors Group on Climate Change (IIGCC) released its Net Zero Investment Framework (NZIF) 2.0[18] whereby they are recommending ASCOR as one of the possible assessment tools. The LSE/TPI team mapped the ASCOR indicators against NZIF 2.0's indicators as shown on the following page. Whilst we have the mapping, quite a few obstacles remain for a net zero sovereign bond portfolio, which are debated within the industry and a solution might be developed soon. We are actively working with all stakeholders on this progress.

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

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

Deep dive: Using ASCOR with Net Zero Investment Framework

NZIF Criteria	ASCOR Pillars, Areas, Indicators
1 Ambition	EP2a 2030 target; EP3a Net zero target
2 Target	EP2c,d 2030 target alignment with 1.5°C benchmark and fair share; EP3b,c Net zero target alignment
3 Emissions performance	EP1 Emissions trends and alignment
4 Emissions disclosure	
5 Decarbonisation strategy	CP2 Carbon pricing; CP3 Phasing out fossil fuel subsidies and production; CP4 Sectoral transition policies; CF2a Costing of NDC target
6 Capital/budget allocation	CF3 Expenditure disclosure and climate budget tagging
7 Climate policy engagement /climate finance	CF1 Current and future contributions to USD100bn climate finance
8 Climate governance	CP1 Framework climate law
9 Just transition	CP6 Human rights and just transition policies
10 Climate risk and accounts	

ASCOR

Source: ASCOR, 2024

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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 this is our third Sustainability Report providing a status report of 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 developed 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.[19]

As of June 2024

[19] Investors with ~US$8 trillion AUM engage sovereigns on climate change in PRI-coordinated pilot focused on Australia | News and press | PRI (unpri.org)

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