

Colchester ESG Policy

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Responsible Investment

Contents

Introduction	2
Investment Process	3
United Nations Principles for Responsible Investment	4
Philosophy	5

Introduction

Colchester Global Investors Limited (Colchester) is a medium-term value driven investment manager. Investments are made in fixed interest securities issued by sovereigns and supranational institutions and their currencies. The factors that underpin the Colchester investment process are wide ranging incorporating macro-economic and financial analysis alongside environmental, social and governance factors (ESG). Responsible investing is and has been since the inception of the company in 1999, integral to the investment process employed by Colchester.

Colchester believes that countries with better ESG standards tend to produce better economic growth, more stable balance sheets, and better long-term and sustainable financial outcomes. Our investment strategy therefore rewards those countries with better, and penalizes those with weaker ESG standards, as we believe that this will deliver better risk adjusted returns for our clients over the medium term.

Colchester's investment programs invest primarily in sovereign bond markets that offer attractive real yields adjusted for the strength of their balance sheet and in undervalued real exchange rates adjusted by the strength of their external financial balance sheet. Colchester does not rely upon external credit rating assessments as we perform our own research. Our portfolios are highly transparent, liquid, unlevered and do not utilize securitization vehicles, credit or other corporate bonds.

All portfolios managed by Colchester follow a similar investment management strategy based on the analysis of inflation, real interest rates and real exchange rates, supplemented by an assessment of sovereign financial balances - fiscal, external, monetary and ESG factors.

Colchester invests on a global basis in both developed and developing/emerging, markets. Risks associated with the investment process include, but are not limited to the following:

1. Currency exchange-rate risk;
2. The possible imposition of withholding, income or excise taxes;
3. The absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and weak government supervision and regulation;
4. Financial, economic and political risks, including capital controls; and
5. Global market turmoil.

While ESG considerations are inherent in our financial stability analysis, they also inform our assessment of these, and other risks, that impact on the construction of our portfolios. Whilst ESG factors are not as easily identified, measured or acted upon for sovereign debt as they are for equity or corporate debt, they can still be incorporated into the investment process. Governance is clearly a key consideration, although environmental and social considerations also play a role in determining the medium-term stability and economic performance of a country.

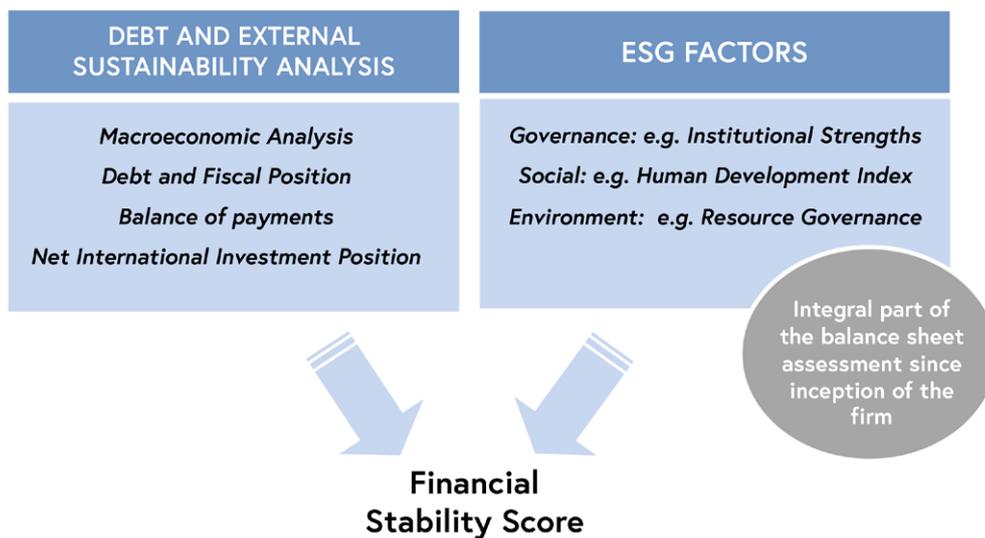
Investment Process

The Colchester Investment Management team perform detailed research assessments for all countries within the investment opportunity set. This country research process is performed independently by Colchester's investment professionals and is supplemented, where possible, by meetings with government finance departments, economists, political analysts, major corporates and independent 'think tanks' to develop a rounded picture of a country's status and prospects.

ESG factors are integrated holistically into Colchester Global Investors' valuation framework. Countries are assigned a proprietary Financial Stability Score that combines an assessment of their overall balance sheet strength and ESG factors (Figure 1). Scores are determined through an extensive assessment of the macro-economic environment, policy framework, ESG standards and other country specific factors. The data used in the financial health assessment comes from government statistical offices, central banks and international institutions (OECD, IMF, BIS, etc.). Similarly, ESG data comes from standardized internationally recognized organizations i.e. the United Nations, World Bank, Natural Resource Governance Institute. The Financial Stability Score therefore encompasses a diverse range of quantitative and qualitative assessment factors for a country.

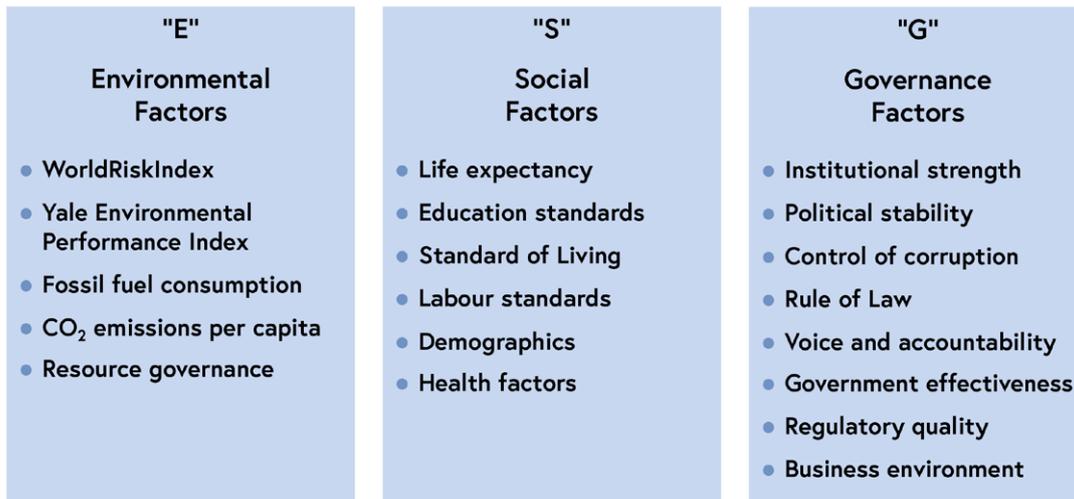
Bond and currency scores range from +4 to -4, and, at a limit, a country may be excluded from the investment universe if its ranking falls below -4. Colchester penalizes a country's balance sheet for weak ESG factors. ESG and country research is undertaken by Colchester's investment team, who also engage with stakeholders, where possible, during country research trips.

Figure 1: Financial Stability Score a function of Balance Sheet and ESG factors



Following our assessment of real yield and real exchange valuations, the Financial Stability Score is applied to the real yield in the portfolio construction process. Where we have two countries with equal real yields, and similar volatility and risk characteristics, the one with the higher Financial Stability Score will be favored, as it is reasonable to assume that a country with higher standards on all, or some, factors would have a better return outcome. Some factors included within the ESG assessment are show in Figure 2:

Figure 2: Diverse Range of Quantitative and Qualitative ESG factors



United Nations Principles for Responsible Investment

Colchester is a signatory to the UNPRI, implements and adopts the six principles of responsible investment. We see no conflict of these principles with our fiduciary duties and responsibilities to our clients. Colchester recognizes that these principles support the investment process.

In summary, we put into action each principle as follows:

Principle 1 - We will incorporate ESG issues into investment analysis and decision-making processes.

Colchester incorporates ESG factors directly into its investment process via the country research process and Financial Stability Score which forms part of the portfolio construction and determination of the investment opportunity set.

Principle 2 - We will be active owners and incorporate ESG issues into our ownership policies and practices.

Colchester's Investment Team discusses ESG issues with investing clients at regular meetings as well as with issuers during country research trips when possible and appropriate to do so. This way, we aim to influence, engage and improve ESG metrics for sovereign debt.

Principle 3 - We will seek appropriate disclosure on ESG issues by the entities in which we invest.

During the investment team's country research trips, they will seek more ESG related information, and discuss some ESG related issues further, where possible.

Principle 4 – We will promote acceptance and implementation of the Principles within the investment industry.

We hold regular meetings with investing, prospective clients and consulting firms that represent wide groups of investors explaining our investment process. These meetings regularly include specific discussion of ESG matters particularly when discussing the impact of the Financial Stability Score.

Principle 5 – We will work together to enhance our effectiveness in implementing the Principles.

Colchester believes in a process of continued improvement and constant review of the quality of data and information used in its research effort. We continually review data and monitor how a country is developing and changing. Discussion, consideration and continuous assessment of which ESG metrics or issues to be included in the investment process is a key component of this.

Principle 6 – We will each report on our activities and progress toward implementing the Principles

Colchester explains to clients, prospective clients and their consultants how ESG factors are incorporated into, and are supportive of, our investment process. We report annually on our approach to integrating ESG factors into our investment process.

Philosophy

Colchester believes that Responsible Investment supports our medium term value driven investment process. We believe that countries with higher governance standards, healthier and better educated workforces should, on average, generate better economic and financial outcomes. Countries with better ESG standards are therefore associated with stronger balance sheets.

Colchester never makes investment decisions based solely upon ESG factors, but we do believe that these factors are an important determinant of identifying sustainable value, and as such, is in the best interests of our clients.

Governance

The policy is reviewed at least annually and updated if required. The Investment Management Committee (IMC) reviews and implements the responsible investment approach with the final sign off by Colchester's Chief Investment Officer (CIO) or his designee.