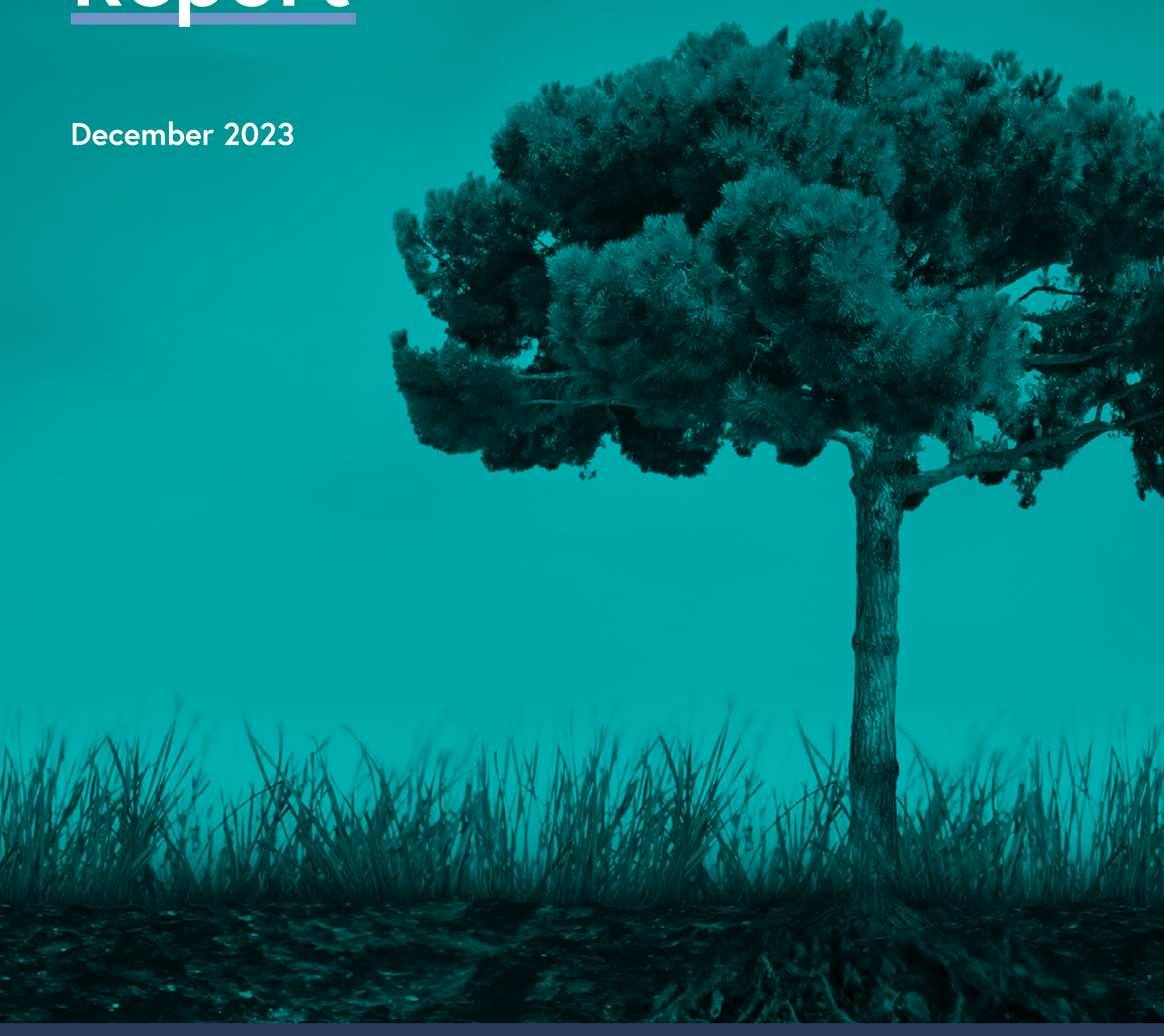
Colchester
GLOBAL INVESTORS

Sustainability Report

December 2023



1. Foreword

Keith Lloyd
Group CEO and
Deputy CIO

Colchester has a great responsibility and opportunity to support investment and assist the development of countries to improve people's standards of living and protect our environment. Innovation with the goal of advancing economic growth is key if we are to leave future generations a sustainable and vibrant ecosystem. Climate change, food, water and resource management, global health, education and equal opportunities are essential ingredients in providing better economic, social and living conditions for all. Since becoming a supporter of the Task Force on Climate-related Financial Disclosures (TCFD), Colchester's TCFD Advisory Committee has worked towards their goal of improving transparency and reporting on climate-related risks and opportunities. Our main achievement this year has been the reclassification of our UCITS pooled funds to Article 8 under SFDR. As a proud sponsor and member of the Assessing Sovereign Climate-related Opportunities and Risk (ASCOR) Project, we have also been pleased to contribute to the ASCOR Consultation Report in February, the ASCOR Framework Methodology Note in November and the release of the findings from the 25 pilot countries this year. Sovereign bond investing does not fall into the usual buckets, and we have been pleased to advance understanding in this area. Colchester's third annual Sustainability Report outlines our objectives and our achievements to date. In this report we demonstrate our commitment to making meaningful change whilst ensuring full transparency in reporting how we are meeting our climate-related goals.

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Colchester® GLOBAL INVESTORS

2. Highlights From Our Sustainability Journey

2016

ESG Policy

UN PRI Signatory

- Established our formal ESG Policy Framework
- UN PRI[1] Signatory Dec 2016

2017

- Published our first voluntary PRI Transparency report

2018

Chair of the UN PRI Sovereign Working Group

- Claudia Gollmeier becomes Chair of the UN PRI Sovereign Working Group

2019

- Launched Colchester's Global Green Bond Fund April
- Became a TCFD supporter May 2019

2020

- Established TCFD Advisory Committee
- Published our Engagement Policy
- Member of the Emerging Markets Investors Alliance (EMIA)

2021

- Member of the Emerging Markets Investors Alliance – Steering Committee Member on Carbon Transition Initiative
- Published our first Social Corporate Responsibility Report
- Published our first Environmental & Sustainability Policy
- Published our first engagement report
- Collaborated with IDB[2] on the Green Bond Transparency Platform
- Member of Advisory Committee to Assessing Sovereign Climate-related Opportunities and Risk (ASCOR) Project
- Supporter of Investors Policy Dialogue on Deforestation
- Member of Nasdaq Sustainable Advisory Board
- Supporter to Transition Pathway Initiative (TPI)

2022

- Established Environmental and Sustainability Champions Program
- Released first Progress report on Assessing Sovereign Climate-related Opportunities and Risk (ASCOR)
- Published first Sustainability Report
- Implemented CO_2 & greenhouse gas emission client reporting across funds and portfolios
- Colchester celebrated its 20 year anniversary with an in person global staff offsite to foster its sustainable culture

2023

- Acting Co-chair of the ASCOR project, assisted in roundtables, methodology development and pilot country assessments
- UN PRI Sovereign Debt Advisory committee released the paper "Considering climate change in sovereign debt"
- Joined the PRI led investor collaborative Australian sovereign engagement on climate change

PRI Assessment Report

Year	Strategy & Governance	Fixed Income - SSA
2017	B	A
2018	A+	A
2019	A+	A+
2020	A+	A+
2021	4 star*	5 star*

*Note: assessment methodology changed in 2021

[1] UN PRI: United Nations Principles for Responsible Investment
[2] IDB: Inter-American Development Bank

3. Who We Are

Colchester Global Investors is one of the world's leading independent investment management firms, founded by Ian Sims in 1999, with an exclusive focus on sovereign bond and currency management. Colchester's rigorous application of its real yield investment strategy, supplemented with in-depth balance sheet analysis and ESG integration, has underpinned the firm's success. Colchester has assets under management in excess of US$26.1bn as at the end of 2023 across four core strategies: Global Bond, Global Inflation Linked Bond, Local Currency Emerging Markets Bond and an Alpha Program.

Global Sovereign	$12.2bn
Global Inflation Linked	$1.3bn
Emerging Local Markets Debt	$12.2bn
Alpha Program	$0.4bn

Colchester has offices in London, Dublin, New York, Singapore, Sydney, Dubai and Madrid. Investment Officers are based in our London, Dublin and Singapore offices with the other offices primarily responsible for client service and marketing activities. Our global presence across these locations reduces the need for excessive air travel and supports the firm's commitment to a sustainable operating model.

4. Our Approach To TCFD

In 2015, the Financial Stability Board established the Task Force on Climate-Related Financial Disclosures. The Task Force's final recommendations, published in 2017, include a framework for consistent climate-related financial risk disclosures for companies, banks, asset managers and investors. A key aim of the framework is to bring consistency to different countries' disclosure regimes, making it easier for entities investing in companies in multiple jurisdictions to understand the climate-related risks and opportunities within their portfolios. The framework also aims to benefit the companies implementing the TCFD recommendations, as the analysis that those companies have to conduct helps them better understand the climate-related risks and opportunities facing their business, resulting in improved responses and management decisions. As Colchester only invests in sovereign bonds, the application of a number of the principles, thought process and analysis underpinning TCFD has been challenging. Nonetheless we are encouraged by the evolving body of knowledge in this space, and are delighted to contribute to, and help shape, the industry's understanding of the applicability of a number of these principles to sovereign bond investing.

The core elements of the TCFD Framework

Source: TCFD, 2017

Colchester's Progress in meeting TCFD Recommendations

	TCFD Recommendations	Check	Sustainability Report Section
Governance	Disclose the company's governance around climate-related risks and opportunities.		
Board Oversight	Describe the board's oversight of climate-related risks and opportunities.	✓	4.1
Management's role	Describe management's role in assessing and managing climate-related risks and opportunities.	✓	4.1 & 4.2
Strategy	Disclose the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material.		
Description of climate risks and opportunities	Describe the climate-related risks and opportunities the company has identified over the short, medium and long term.	✓	4.2
Impact of climate risks and opportunities	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	✓	4.2
Resilience to climate risks and opportunities	Describe the potential impact of different scenarios, including a 2°C or lower scenario, on the organisation's businesses, strategy and financial planning.	✓	4.2 & 4.3
Risk Management	Disclose how the company identifies, assesses and manages climate-related risks.		
Identification and assessment of climate risks	Describe the organisation's processes for identifying and assessing climate-related risks.	✓	4.4
Management of climate risks	Describe the organisation's processes for managing climate-related risks.	✓	4.4
Integration of climate risks	Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	✓	4.3 & 4.4
Metrics and Targets	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.		
Climate-related metrics	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	✓	4.3 & 4.5
Operational emissions	Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas emissions and the related risks.	✓	4.5
Climate-related targets	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	In progress	4.5

Source: TCFD and Colchester

4.1 Governance

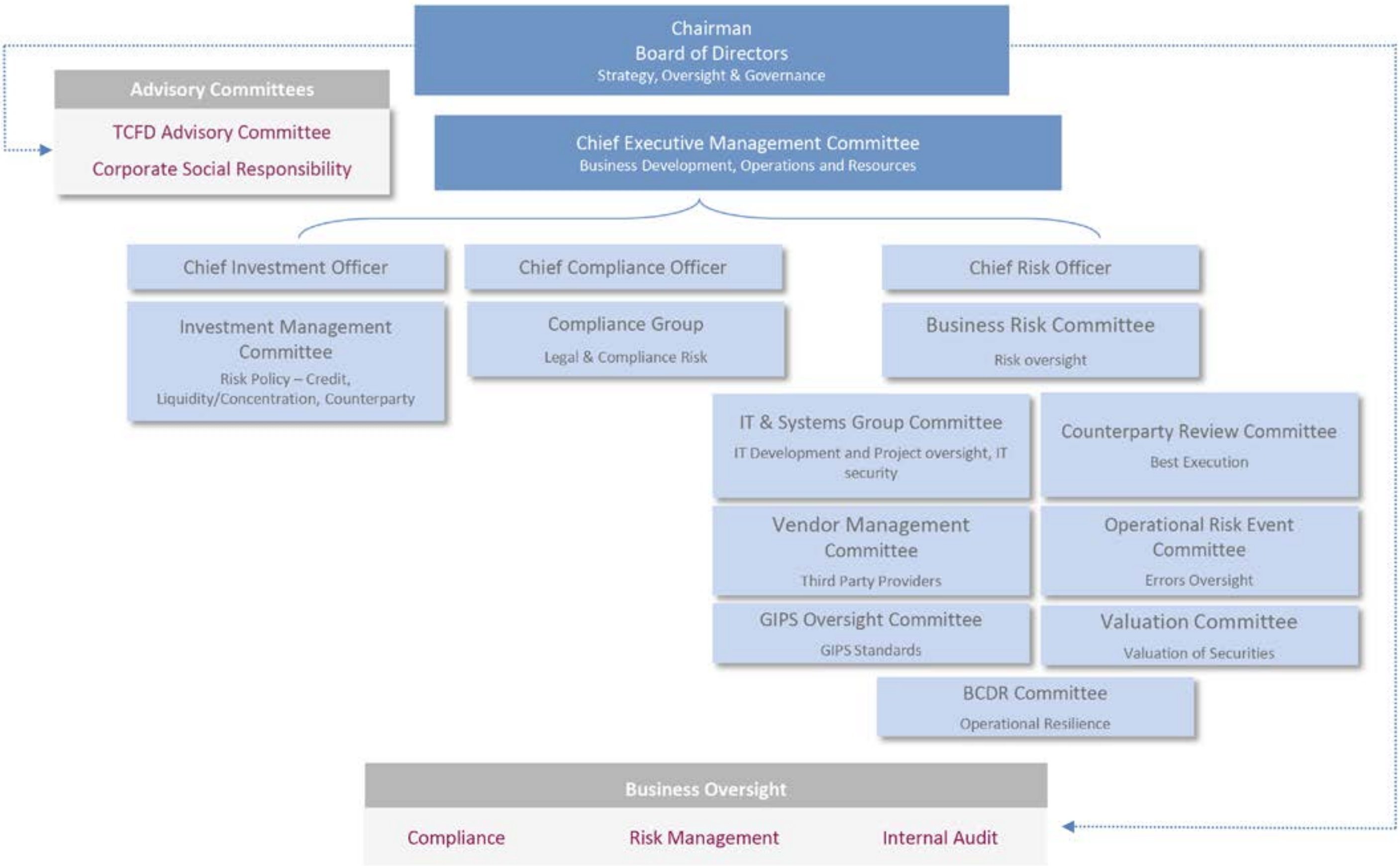
Board oversight of climate-related risks and opportunities

Sustainability matters, including climate-related risks and opportunities, are a key aspect of Colchester's overall business strategy. Colchester's Board is responsible for setting the sustainability strategies for the firm and for overseeing execution of the strategies which have been delegated to various committees and teams. The Board meets four times a year, with additional ad hoc meetings as required, which includes discussion on the progress of the company's climate risks and opportunities matters. For example, previous Board discussions around Decarbonization Commitments resulted in sponsoring the ASCOR project to provide the first sovereign climate assessment framework. The Board receives regular reporting from key committees related to sustainability matters. Colchester's TCFD Advisory Committee provides the Board with a report on a bi-annual basis. Apart from monitoring the climate risk metrics annually, the Board reviews Colchester's carbon footprint and has put processes in place to try to make business travel more efficient by combining different business needs within one trip.

Management's role in assessing and managing climate-related risks and opportunities

Colchester's Governance and Risk Management framework consists of several executive committees, which discuss and make the Board aware of any material risk issues when appropriate to do so. Specifically, climate-related risks are discussed within Colchester's TCFD Advisory Committee which is comprised of members from across the various departments of the company. The role of the committee is to assist the Board with the assessment of the TCFD's four core elements of recommended climate-related financial disclosures, namely 1) Governance, 2) Strategy, 3) Risk Management, and 4) Metrics & Targets, according to the TCFD's general guidance for the financial sector, and supplemental guidance for asset managers. The TCFD Advisory Committee has worked with other committees to strengthen the governance measures with regards to climate-related risks and implemented measures within the risk framework. We have also established a Corporate Social Responsibility Advisory Group and an Operational Risk Event Committee. Sustainability is integrated into different business areas across Colchester, with certain committees having sustainability as their focus, while other teams or committees integrate sustainability into their broader functional responsibilities. Section 4.2, Our Strategy, further reflects the integration of sustainability across the company. We see this to be a continuous journey and will report on our progress annually.

Governance and Risk Management Structure



Source: Colchester, December 2023.

4.2 Our Strategy

We have identified the key drivers that will support our sustainable growth over the medium term.

Sustainable growth is supported by

Infrastructure

The use of technology is a critical part of Colchester's investment process and for remote working. We use an integrated data warehouse, which includes ESG data, as a research analytics tool. We also maintain a robust technological infrastructure to support our portfolio optimisation framework as well as our risk management and client reporting platform.

Customised Client Solutions & Strategies

Our Marketing & Client Services Team and Investment Team work closely with our clients to deliver customised solutions. These may include our Global Green Bond Strategy or other sustainable investment objectives.

Cybersecurity

Colchester has a robust Cybersecurity framework to ensure the confidentiality and security of our clients' data.

Collaborations

Colchester is a signatory to the UN PRI and a supporter of TCFD. Colchester collaborates with the CFA Institute, TPI/ASCOR, EMIA, the IDB Green Bond Transparency Platform and many other working groups to advance the sustainable investing agenda.

Responsible Investing

Colchester takes a holistic approach to the systematic integration of ESG factors into the investment process and actively engages with issuers and the industry to influence positive change.

4.2.1 Colchester's Climate-Related Risks and Opportunities

Transition risks are the risks stemming from the change in moving from high carbon economies to low carbon economies, due to policy changes and society led changes. Transition risk is the key near-term source of risk and opportunity for our business. This exposure is primarily indirect with the potential to affect revenues and expenses. Although our global offices could be affected by adverse climate events, the financial impact is limited, as facilities are leased, and IT infrastructure is hosted in the Cloud. Colchester maintains business continuity plans to mitigate business disruption caused by physical climate risks. The following tables highlight key climate-related risks and opportunities for Colchester:

Opportunity	Section	Time Horizon*	Potential Financial Impact	Our Approach
Resource Efficiency	4.5	Transition	Low	Colchester is committed to operating sustainably. Our approach to waste reduction, recycling, water usage, energy efficiency and emissions reduction is set out in our Environmental and Sustainability Policy. By reducing waste, increasing recycling, employing energy efficiency strategies, and reducing travel we lower our emissions, minimise the environmental impact and improve operational efficiency. Colchester's employees play a big part within our sustainability drive via the Environmental and Sustainability Champions Program and volunteer days (more detail under sections 4.5.4 & section 6 Our Approach to CSR).
Investment Strategies	Section 4.3	Transition	Medium to high	We have experienced increased interest in sustainable investments as investors seek to focus on climate change/ net zero commitments within their portfolios. We have undertaken many educational meetings with asset owners, consultants and other stakeholders. We also provide customised client solutions with sustainable investment objectives. We offer a lower-carbon solution via our Global Green Bond Strategies (section 4.3.7).
Industry Collaboration & Research	4.3.6	Transition	Medium to high	We continue improving our integration framework for ESG factors and leverage our ESG database to facilitate product and regulatory reporting requirements. Colchester engages with various stakeholders on many ESG factors, which will feed back into our investment decision making, where relevant, and semi-annually we publish our engagement efforts (see more detail under 4.3). Colchester plays an active industry role as Chair of the PRI Sovereign Debt Advisory Committee and supports industrywide initiatives for sovereigns, such as the ASCOR Advisory Committee. The ASCOR project aims 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. The latest ASCOR Project's methodology and pilot country assessment report as of end of 2023. We are also a supporter to the IDB Green Bond Transparency Platform and a member of the Nasdaq Sustainable Bond Network.

Risk	Section	Time Horizon*	Potential Financial Impact	Our Approach & Mitigating Factors
Market	4.3.8	Transition Risk	Medium to high	Climate-related risks can impact asset valuation as the economy adjusts towards a low-carbon economy. This can further impact Colchester's AUM and hence income. To mitigate these risks, we consider climate risk within our investment process and have developed an initial in-house simple climate scenario analysis (see more details under section 4.3 responsible investment).
Investment Strategies	4.3.7	Transition Risk	Medium to high	The development of new strategies to meet climate-related demand from clients can expose Colchester to reputational harm, additional costs or operational risk. Changes in client preferences and/or changes to regulation to which clients are exposed can reduce demand for standard Colchester strategies. To mitigate these risks, Colchester has launched new strategies in different jurisdictions (Europe and Australia), further detail of which can be found in section 4.3.7.
Regulatory & Reputational	5.0	Transition Risk	Medium to high	Environmental and sustainability disclosure requirements, or regulations applicable to investment products, can increase compliance costs, change the competitive landscape, reduce the attractiveness of Colchester's strategies and expose the firm to penalties or sanctions.
Extreme Weather Events (Acute & Chronic Physical Risk)	4.4	Physical Risk	Low	More frequent and severe climate-related events can affect operations and disrupt business travel. Colchester has business continuity plans to facilitate ongoing business in the event of disruptions and building insurance to cover assets and infrastructure, travel and offices. Furthermore, we have enhanced our operational risk framework.

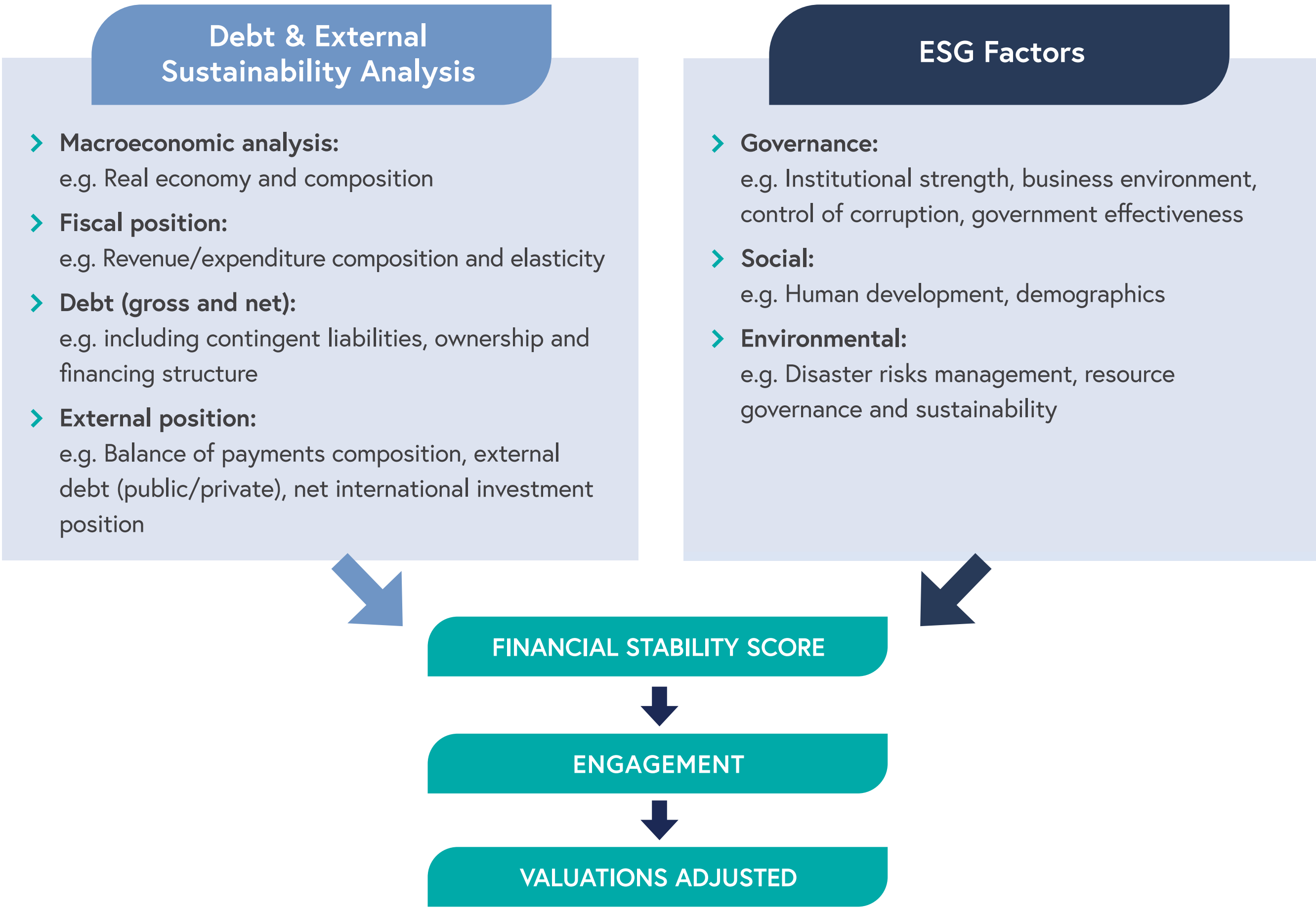
*Time horizon definitions: < 5 years: short term; 5-10 years: medium term and 10-30 years: long term

4.3 Our Responsible Investing Approach

4.3.1 Investment Process and ESG integration

Colchester is a value-oriented asset manager. At the heart of Colchester's philosophy is the belief that investments should be valued in terms of the income they will generate in real terms, adjusted by our proprietary Financial Stability Score (FSS). The FSS considers a country's balance sheet assessment and ESG factor assessment. We believe that traditional sovereign credit analysis should be supplemented with the systematic integration of ESG factors to assist us in identifying countries' risks and opportunities. Colchester believes that countries with better ESG standards tend to produce better economic outcomes, more stable balance sheets and better long-term and sustainable financial outcomes. Our engagement process complements our FSS and forms an integral part of our investment valuation framework (see Figure 1). We publish our engagement activities semi-annually – for the latest report please see ESG Engagement Report June 2023.

Figure 1:



Responsible investing is an integral part of the investment process however Colchester never makes investment decisions based solely upon ESG factors. Unless specified in the client Investment Management Agreement or offering documents, specific assets with poor ESG ratings may not be excluded from portfolios. For more detail on ESG factors please see our ESG Policy.

Colchester has published several case studies on ESG integration. Some examples include Russia and Italy.

4.3.2 Sovereign climate risk assessment through the lens of our Financial Stability Score framework

Colchester looks at climate risk to sovereigns holistically, considering geophysical, physical and transition climate risks, in conjunction with the governance and social aspects. We are aware that the Intergovernmental Panel on Climate Change (IPCC) released its Sixth Assessment Report in August 2021 and finalised the second part of the Report, Climate Change in February 2022. The reports warn of increased average global temperatures. Climate change effects can already be seen with more global extreme weather events, such as increases in the frequency and intensity of heatwaves, droughts, flooding, etc as well as biodiversity loss. This informs our perspective of the challenges facing all countries.

As investors in sovereign debt, we assess these material risks through the lens of our FSS framework, which combines both balance sheet fundamentals and ESG factors. We have also enhanced our Sovereign ESG framework with additional factors as shown in the following table, as more data sets on the "E" became available.

	Pillar	Risk Factor	Indicator	Source
Environmental	Transition Risk	Decarbonisation	Renewable Energy	Bloomberg NEF
			Coal/Oil rents	World Bank
			CO_2 emissions per capita	EDGAR
			Total CO_2 emissions	EDGAR
			Scenario Analysis	Colchester Global Investors
	Physical Risk	Environmental Damage	Air Quality	YALE Environmental Performance Index
			Sanitation & Drinking Water	YALE Environmental Performance Index
			Biodiversity	YALE Environmental Performance Index
		Vulnerability to Climate Change	Vulnerability Index	Notre Dame Global Adaptation Initiative
			Scenario Analysis	Colchester Global Investors
Social	Social Cohesion	Political Stability/ Representation	Voice and Accountability	Worldwide Governance Indicators
			Political Stability & Absence of Violence	Worldwide Governance Indicators
		Equality	Gini coefficient	World Bank
		Health & Education	Life Expectancy at Birth	World Bank
			Education (Expected/Mean years of schooling)	UN Human Development Report
	Human Capital	Demographics	Old Age Dependency Ratio	World Bank
		Labour Market	Prevalence of Modern Slavery	Global Slavery Index
			Female Labour Force Participation	World Bank
			Youth Unemployment	World Bank
Governance	Government Effectiveness	Government Effectiveness	Government Effectiveness	Worldwide Governance Indicators
			Regulatory Quality	Worldwide Governance Indicators
	Rule of Law	Corruption/Property Rights	Freedom from Corruption	The Heritage Foundation
			Property Rights	The Heritage Foundation
			World Press Freedom	Reporters Without Borders
	Economic Environment	Economic Freedom	Trade Freedom	The Heritage Foundation
			Investment Freedom	The Heritage Foundation
			Financial Freedom	The Heritage Foundation

Climate change induced by human activity is likely to impact many countries' economies via physical and transition risks over different time horizons. Whilst these outcomes are uncertain with respect to their timing and severity, they could result in economic and financial losses to corporates, households and governments. Hence, regulators and policy makers are implementing more adaptive and mitigation policies to safeguard for financial stability, amongst other considerations. Colchester believes the level of governance, level of development, and countries' willingness and ability to adjust and mitigate against climate change events are particularly important when assessing the economic impact on countries' balance sheets. We explore some of these issues in a case study. Please note also the country case studies from the most recent PRI Sovereign debt advisory committee, to which we contributed. The publication "Considering climate change in sovereign debt" highlights climate risk challenges and opportunities as well differences to other asset classes such as corporate debt.

Considering climate change in sovereign debt

9 November 2023

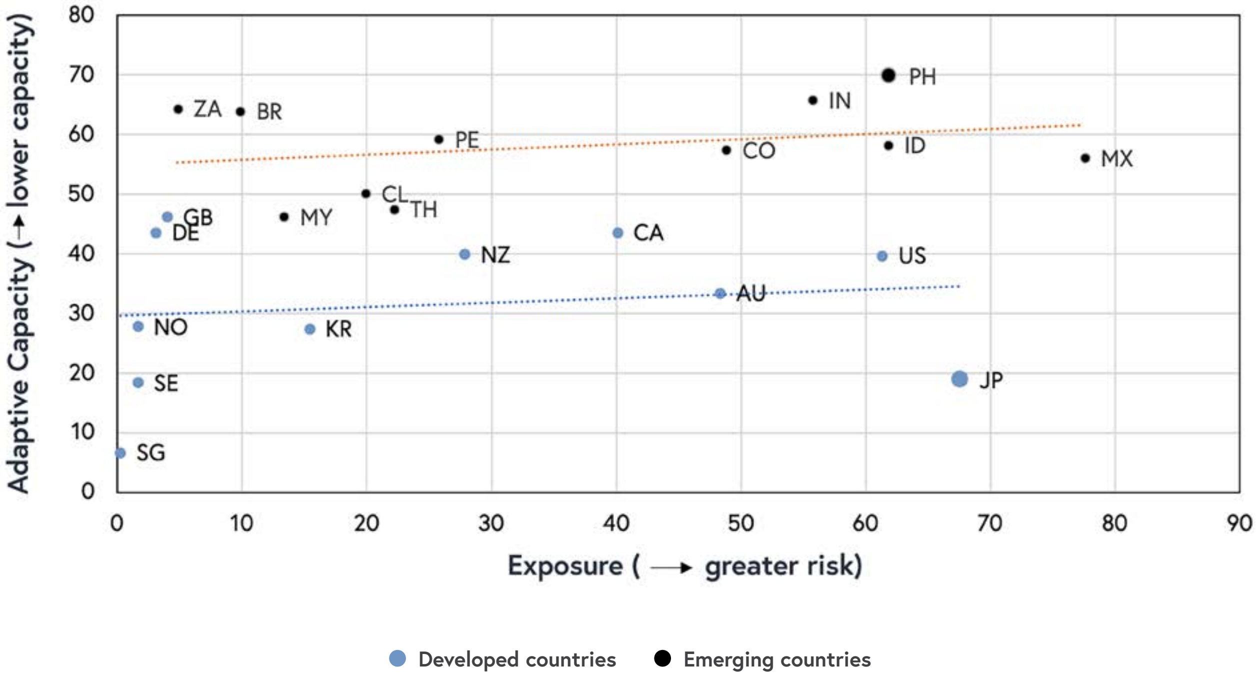
Investors increasingly consider climate change in sovereign debt assessment – both risks and opportunities for positive impact. This paper helps investors understand the many links between sovereign debt and climate change.

4.3.3 Physical Climate Risk to Sovereigns

When we consider physical climate risk to sovereigns, we consider both acute and chronic risks, and estimate how they may impact on a country's fiscal cost, macroeconomic environment and debt sustainability. The interlinkage between the fundamental balance sheet analysis and our FSS is clear, as certain economic sectors are more vulnerable to physical climate risks, all else being equal, than others. For more details see Colchester Sustainability Report Dec 2022. One sector more at risk of physical climate change is the agricultural sector, which might be negatively affected in some countries by increasing temperatures, sea-level rise, and extreme weather events resulting in reduced crop yield and loss of arable land.

The WorldRiskIndex (Chart 1) shows that countries with high exposures to physical climate risk include Mexico, Colombia, the Philippines, India and Indonesia, as well as some high-income countries, such as the US, Australia and Japan. However, the latter group manages to mitigate these disaster risks better as they typically have stronger institutions and better financial capacity. This in turn helps reduce the impact on economic growth, or social factors such as the loss of human lives and the displacement of parts of a country's population as their livelihood or means of subsistence is impaired.

Chart 1: WorldRiskIndex



Source: WorldRiskIndex 2023. Note: Countries selected were based on Colchester's Global Bond and Local Emerging Markets Bond Universe dotted blue line are trend line for Global Bond Universe and dotted brown trend line for Local Emerging Markets Bond Universe.

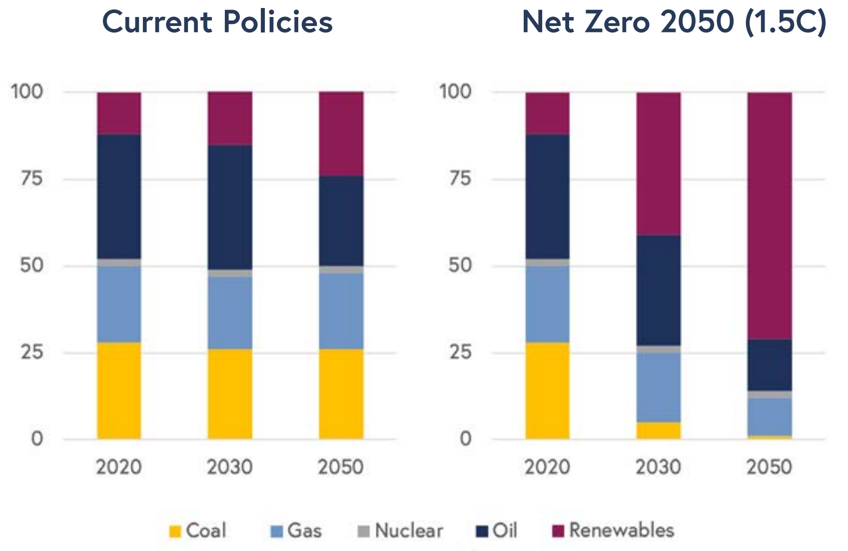
Country Legends: AU: Australia, BR: Brazil, CA: Canada, CL: Chile, CO: Colombia, DE: Germany, GB: United Kingdom, ID: Indonesia, IN: India, KR: South Korea, MY: Malaysia, MX: Mexico, NO: Norway, NZ: New Zealand, PE: Peru, PL: Poland, PH: Philippines, SE: Sweden, SG: Singapore, TH: Thailand, US: United States of America, ZA: South Africa.

4.3.4 Colchester is looking at Transition Risks and Opportunities for Sovereigns

Transition risks are associated with transitioning to a lower carbon economy and tend to be of slower speed and have more medium to longer term uncertain economic implications for sovereigns. Net Zero 2050-70 target commitments along with other pledges, require countries to reduce their Greenhouse Gas (GHG) emissions.

The International Institute for Applied Systems Analysis (IIASA) forecast of global primary energy mix by scenario in Chart 2 shows that there will need to be changes to the global energy mix adopted to meet these commitments. Analysis performed by IIASA and included in the Network for Greening the Financial System (NGFS)[1] document - NGFS Climate Scenarios for central banks and supervisors June 2021 - would seem to indicate that countries with fossil fuel dependent economies may be left with stranded assets in the future, and many countries utilising fossil fuels for energy will have to fund the transition to renewable or alternative energy sources. However, we note that in this space, things are changing constantly. For example, South Africa and Indonesia have obtained funding from the Climate Investment Fund (CIF) and other Partnerships to help them transition their electricity generation away from coal to renewables earlier.

Chart 2: Change in global primary energy mix by scenario

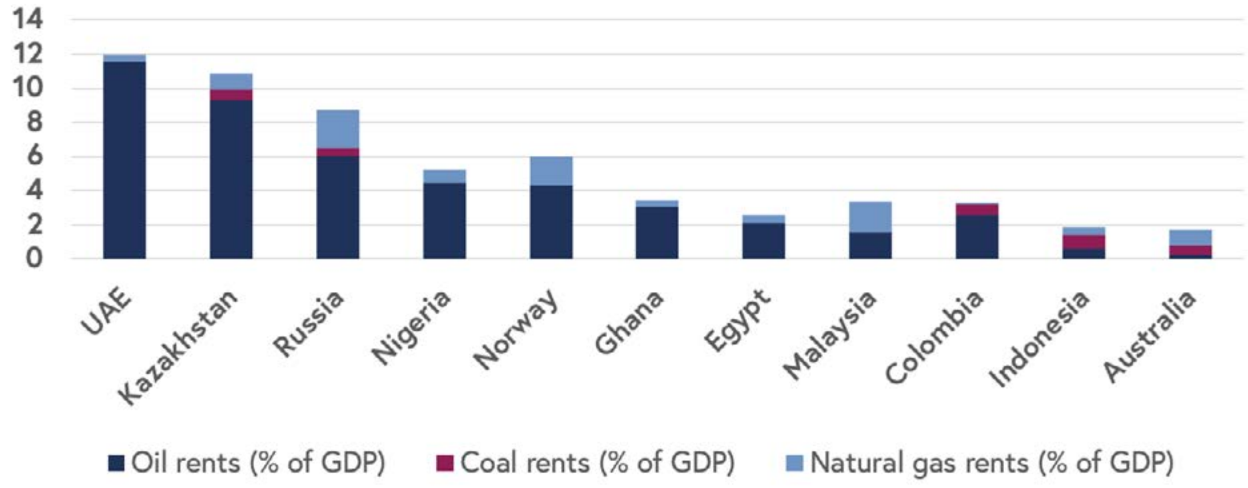


Source: IIASA Network for Greening the Financial System (NGFS) Climate Scenarios Database, June 2021

Approaches we undertake include looking at the largest GHG producers, their policy commitments as well as economic structure. Given the demand for fossil fuels is expected to decline over the coming decades based on pledges and commitments from some governments, major fossil fuel exporting countries may eventually face a loss of revenue from these commodities (depending on future market pricing) and will need to diversify into other economic sectors. Some of the economies most exposed to fossil fuels within our investment universe are shown in Chart 3.

[1] The Network for Greening the Financial System is a network of 114 central banks and financial supervisors that aims to accelerate the scaling up of green finance and develop recommendations for central banks' role for climate change.

Chart 3: Fossil Fuel Rent % of GDP as of 2020



Source: World Bank Indicators, Colchester, as of 2021. Note: "Oil or Coal or Natural gas rents are the difference between the value of crude oil or coal or natural gas production at regional prices and total costs of production," as defined by the World Bank for the purposes of this data source.

As can be seen in Chart 3, countries such as the UAE, Kazakhstan, Nigeria and Norway are heavily reliant on fossil fuel rents as a percentage of GDP, and in particular on oil. It follows that they are at risk of future revenue shortfalls to sustain private sector and government activities in the absence of diversifying their economies. Lastly, it is also worth noting that not just the structure of the economy is important to mitigate transition risks, but that resource governance also has an important part to play.

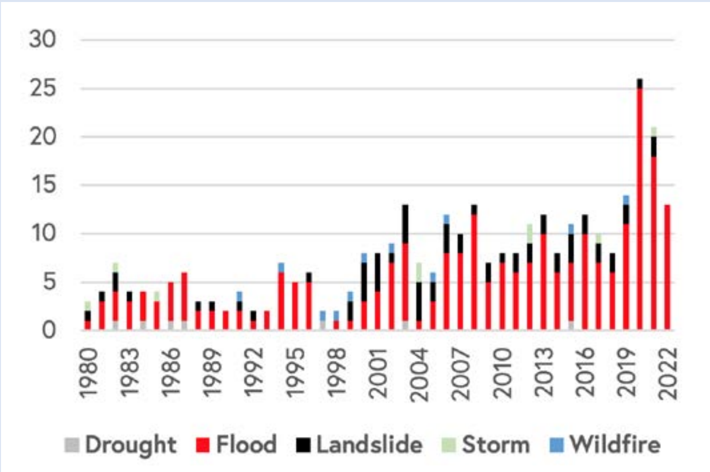
Case Study: Indonesia

As pointed out in the most recent PRI paper on considering climate risk in sovereign debt, there is economic relevance and materiality of climate change to many sovereign debt investors and some academic research has also shown linkages between climate factors and sovereign bonds. However, it is extremely difficult to quantify the specific impact of climate change on sovereign bond valuations, as there are a lot of interlinkages between the "G", "S" and "E". Despite these challenges, we recognise the importance of this evolving risk within the sovereign debt analysis and wanted to demonstrate how we at Colchester look at climate change risks, its complexities, challenges, opportunities and our engagements in the case study of Indonesia.

Physical Climate Risk

Indonesia, is the largest Southeast Asian economy with a population of 270.6 million, the world's largest archipelagic state consisting of over 17,500 islands and stretches over 81,000 km of coastline[2]. Over the years the country's frequency and intensity of natural disasters, with a particularly high exposure to flooding, has increased (see chart below). Indonesia' geographical location and increased natural hazard events makes it the second highest disaster risk country and the fifth highest in terms of exposure according to the WorldRiskIndex 2023. The ND-Gain Country Index[3] also displays Indonesia's higher vulnerability to climate change impacts relative to other countries.

Chart 4: Frequency of Natural Disasters



Source: EM-DAT, CRED / UCLouvain, Brussels, Belgium, IMF Climate Change Dashboard, ND-Gain, Colchester, as at end of 2022

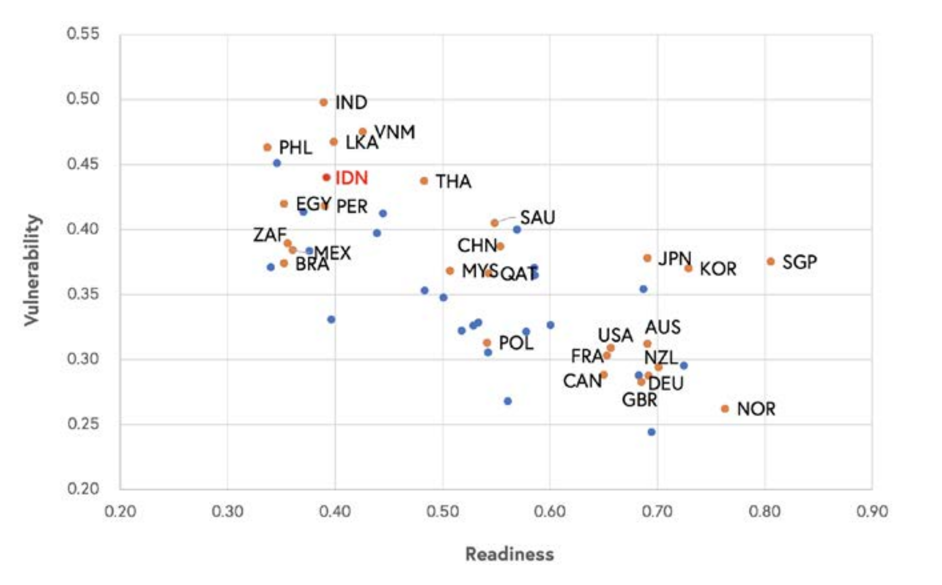
Given Indonesia's long coastline makes it particularly vulnerable to sea-level rise, and the extreme weather affects the agriculture, fishery and forestry sector, which accounts for 35 million workers (ca. 30% of total workforce) or 12.4% of GDP as of 2022 as estimated by the World Bank. It is estimated that without adaptation, the total population likely to be exposed to constant flooding by the period 2070–2100 could reach over 4.2 million people[4]. Other implications stemming from climate pattern changes via El Nino may impact the rice production due to the impact the onset and length of the wet season. Equally, higher temperatures are also projected to reduce rice crop yields and water availability. Alongside other impacts on agricultural production, Indonesia faces multiple threats to its food security. Implications on food security translated into the higher cost of living in other words higher inflation, which in turn could lead to an increased rate of poverty, alongside other social implications. The extreme case in the absence of well planned adaptation and disaster risk reduction efforts, apart from affecting the poorest population group the most, the country's balance sheet might be negatively affected with an increased cost of funding. The Asian Development Bank (ADB) estimates that by 2100, the impacts of climate change could cost between 2.5–7% of Indonesia's GDP[5].

[2] World Bank (2020). Indonesia – Overview. URL: https://www.worldbank.org/en/country/indonesia/overview

[3] The ND-GAIN Country Index summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience. It aims to help governments, businesses and communities better prioritize investments for a more efficient response to the immediate global challenges ahead. https://gain.nd.edu/our-work/country-index/rankings/

[4] ADB, Climate Risk Country Profile – Indonesia https://www.adb.org/sites/default/files/publication/700411/climate-risk-country-profile-indonesia.pdf

Chart 5: Notre Dame - GAIN Country Index

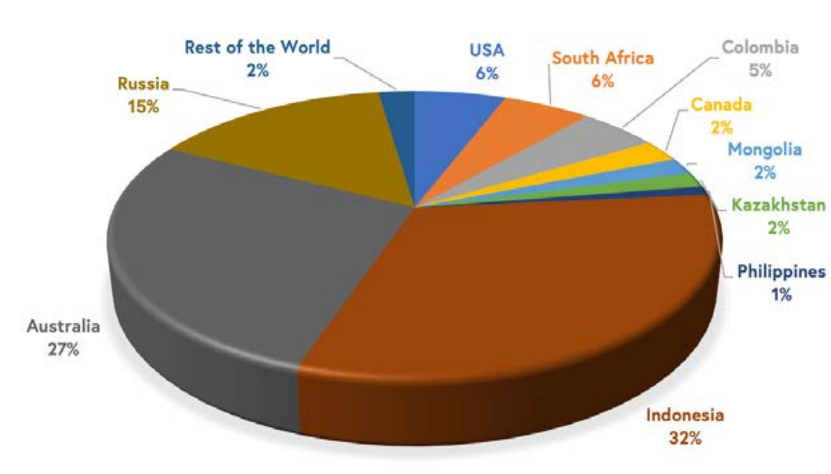


Source: EM-DAT, CRED / UCLouvain, Brussels, Belgium, IMF Climate Change Dashboard, ND-Gain, Colchester, as at end of 2022

Transition Risk

Indonesia is the largest coal exporter Chart 6 and represents its largest export product with ca. 10% of total exports GDP as of 2019 (represents ca. 1.8% GDP). The government receives royalties from oil, gas and coal mining equivalent to 7.5 percent of total government revenue – coal on its own provides about 1.3% of total government revenues as of 2019. Transition risk is rising with major export markets beginning to reduce their coal consumption due to climate pledges. Equally, as the largest palm oil producer with 55% of the global export, it also represents 10% of Indonesia's total exports. Hence, Indonesia's economy will need to diversify and reduce the risks of relying on fossil fuel and palm oil exports in the future.

Chart 6: Major Coal Exporters, 2019



Source: IMF, Indonesia: Selected Issues, March 2, 2021

[5] ADB, Climate Risk Country Profile – Indonesia https://www.adb.org/sites/default/files/publication/700411/climate-risk-country-profile-indonesia.pdf
[6] Climate Action Tracker, Indonesia

Indonesia's electricity sector is one of the biggest Greenhouse Gas (GHG) emissions contributors. Coal generates 61% of electricity and is projected to continue increasing until 2027, and would represent 64% by 2030 under the current electricity sector plan. Whilst Indonesia's GHG emissions are low on a per capita basis compared to countries like the US, the EU or South Korea its trend is picking up.

Having said that, whilst climate policies have been weak and lacked implementation together with the delay of the carbon tax implementation due to COVID-19, the recent presidential regulation stipulates a 2050 coal power phase out date and mandates the development of a plan to achieve this. Significant financial support is required and as part of the solution is the call on international finance via the accelerated coal phase-out by the ADB's Energy Transition Mechanism (ETM), Just Energy Transition Partnership (JETP), and bilateral cooperation agreements. Furthermore, Indonesia signed the Global Coal to Clean Power Transition declaration at COP26 and indicated that it is open to phasing out coal in the 2040s and increasing its net zero ambition, conditional on international support.

This message and commitment was reiterated at COP28 by Prime Minister Jokowi: "Indonesia needs more than US$1 trillion investment for carbon neutrality by 2060. Indonesia invites collaboration from bilateral partners, private investment, philanthropists, and support from friendly countries."

Alongside this Indonesia is a member of the Coalition of Finance Ministers for Climate Action and has implemented climate budget tagging since 2016, which also facilitated the issuances of labelled bonds to support the domestic transition journey.

Transition risk may weigh on Indonesia's sovereign credit rating and the government's ability to finance its economic and social development objectives in the long run. However, Indonesia's level of governance has increased and we are encouraged by our collaborative engagement work with the Emerging Market Investors Alliance (EMIA) Working Group on Decarbonisation – Indonesia, where we engaged with various ministries and most recently with PLN Indonesia's state-owned electricity provider, generating most of the country's electricity. All entities noted their strong commitment to carbon neutrality for 2060 although the higher cost of living combined with the upcoming elections voter unfriendly policies are less likely to be implemented in 2023.

Investment Implication

In conclusion, sovereign ESG integration is more nuanced and complex due to the interlinkages between some of the traditional balance sheet and ESG factors. We at Colchester don't look at these factors in isolation. Instead, we apply a more holistic approach and recognize that some of these longer term transition risks are more difficult to price accurately. Therefore, Colchester's Financial Stability Scores reflect Indonesia's physical climate and transition risks, relatively low government debt levels, improving governance standards led to better prudent macroeconomic policies. Some of these transition risks could be mitigated by economic diversification into the electric vehicle (EV) battery metal nickel sector (including downstream, value-add commodity processing), with as little environmental impact as possible. Furthermore, Indonesia benefits from a young population, which should support future economic growth. Other factors supporting future growth include improving tax collection and more targeted public spending.

4.3.5 Sovereign climate-related risks and evolving frameworks

It is worth noting that Colchester's investment process recognises that assessing and quantifying climate-related risks is a work in progress, not just for central banks and financial regulators, but also for asset owners and managers such as Colchester. We recognise that more data sources, applicable measures, frameworks and analysis that are more directly relevant to an assessment of a sovereign are currently being developed. We encourage and are actively involved in helping the industry devise an appropriate framework and prism within which to assess sovereign assets.

Most recently Claudia Gollmeier, as Chair of the PRI of Sovereign Debt Advisory Committee assisted with the members of the working group in the publication on ESG considerations in sovereign debt analysis and those on environmental issues more broadly.

An example of this industry framework development is the collaborative industry initiative 'Assessing Sovereign Climate-related Opportunities and Risk Project' – known as "ASCOR" Colchester has joined as a member of the Advisory Committee at ASCOR. This joint project pulls together the Principles for Responsible Investment (PRI), the Transition Pathway Initiative (TPI), asset owners and managers, and aims to provide investors and stakeholders with a common lens and framework to understand sovereign exposure to climate risk and how governments plan to transition to a low-carbon economy. Claudia Gollmeier, has been acting co-chair for the ASCOR project with the group's aim to devise a framework and set of tools that will enable the current and future climate change governance and performance of sovereigns to be fairly and appropriately measured, monitored and compared. This assessment framework will then be used to produce an annual public assessment of the climate change governance and climate change performance of sovereigns[7] It consists of three pillars:

1) Emissions pathways
2) Climate policies
3) Funding Opportunities.

The latest ASCOR methodology is available here.

25 pilot countries have been identified, with their results having been published in December 2023 (see ASCOR Country Assessment Tool overleaf). These countries cover nearly 70% of global greenhouse gas emissions and large portions of major sovereign bond indices. The intention is to expand the coverage to include up to 70-100 countries in the coming years.

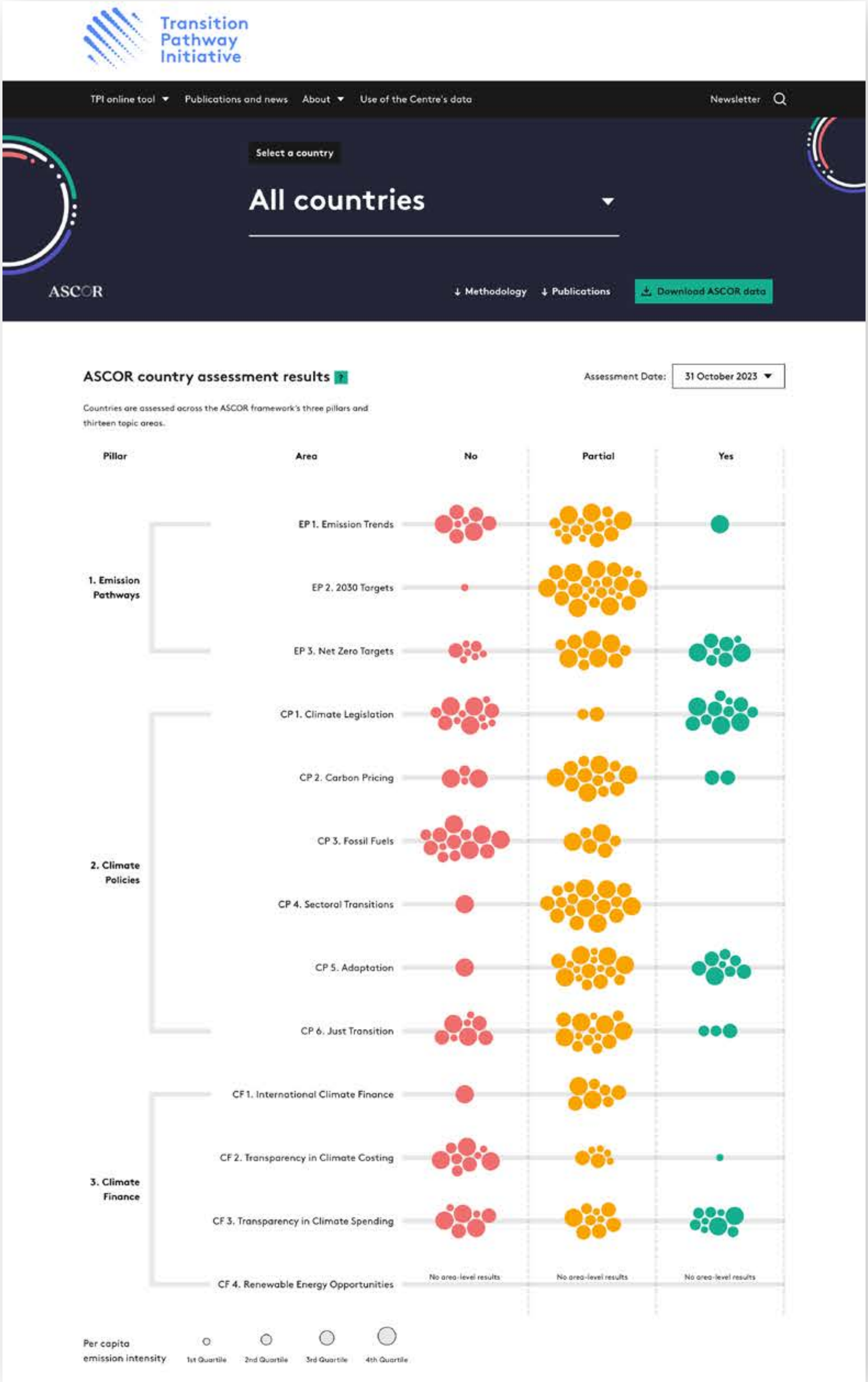
4.3.6 Industry Initiatives and Collaborations

"The ASCOR project aims to fill a data gap on sovereign climate change, intending to provide investors with decision-useful information, whilst allowing sovereign issuers to showcase their progress. It's been a pleasure to work collaboratively with many stakeholders globally in developing this timely and required common approach."

Claudia Gollmeier

Managing Director – Singapore
Senior Investment Officer,
Acting Co-chair of ASCOR

[7] https://www.unpri.org/news-and-press/announcing-the-advisory-group-for-the-assessing-sovereign-climate-related-opportunities-and-risk-ascor-project/8550.article


Transition Pathway Initiative
TPI online tool
Publications and news
About
Use of the Centre's data
Newsletter
Select a country
All countries
ASCOR
Methodology
Publications
Download ASCOR data
ASCOR country assessment results
Assessment Date:
31 October 2023
Countries are assessed across the ASCOR framework's three pillars and thirteen topic areas.
Pillar
Area
No
Partial
Yes
1. Emission Pathways
EP 1. Emission Trends
EP 2. 2030 Targets
EP 3. Net Zero Targets
2. Climate Policies
CP 1. Climate Legislation
CP 2. Carbon Pricing
CP 3. Fossil Fuels
CP 4. Sectoral Transitions
CP 5. Adaptation
CP 6. Just Transition
3. Climate Finance
CF 1. International Climate Finance
CF 2. Transparency in Climate Costing
CF 3. Transparency in Climate Spending
CF 4. Renewable Energy Opportunities
No area-level results
No area-level results
No area-level results
Per capita emission intensity
1st Quartile
2nd Quartile
3rd Quartile
4th Quartile

At Colchester, we undertake direct engagement with issuers as well as engaging with industry initiatives and other collaborations to complement our FSS assessment and shape future sovereign frameworks. A number of those initiatives are listed below:

Industry Initiatives/ Collaborations	Aka	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 to 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 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.[8]

As of December 2023

[8] Collaborative Sovereign Engagement on Climate Change | PRI Web Page | PRI (unpri.org)
PRI Collaborative Sovereign Engagement on Climate Change Australia

4.3.7 Sustainable Product Solutions

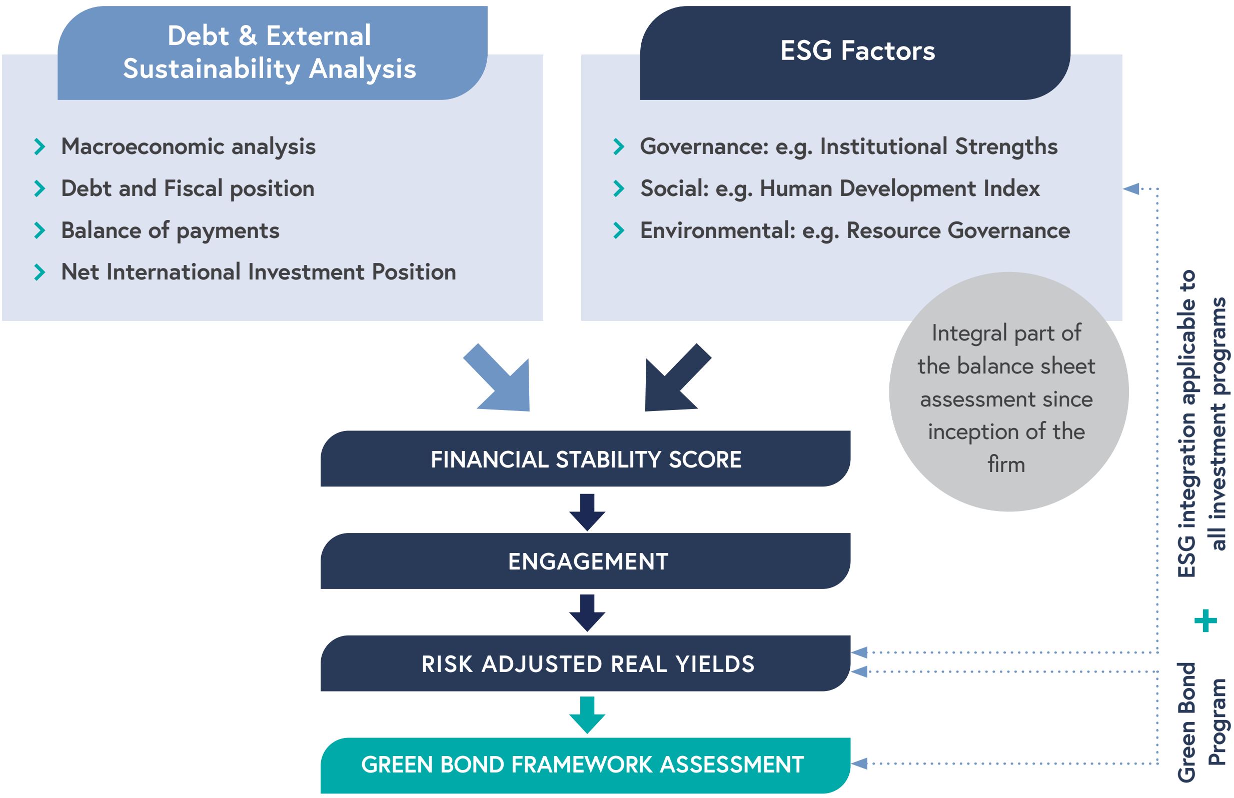
Whilst we haven't set explicit carbon reduction targets across all the investment strategies that we manage, we work closely with our clients to provide customised sustainable solutions in order to reduce the carbon footprint or to achieve other objectives. These solutions include our Global Green Bond Program and specific strategies designed to solve client requirements.

The Colchester Global Green Bond Program

Our Global Green Bond Program uses the same valuation framework, portfolio construction and risk management techniques as our other investment programs. On occasions, we may buy green bonds issued by supranational or government guaranteed entities, due to the lack of availability of green bonds issued by governments, yield curve segments or valuations. We then apply two additional steps that impact on which bonds are considered within the opportunity set, and our ongoing willingness to continue to hold them.

1. Firstly, we make an assessment to determine whether an issuer's green bond framework is aligned with International Capital Market Association (ICMA)'s Green Bond Principles[9] or any other applicable national or supranational standards (including the future EU Green Bond Standard). We then assess that the issuer has arranged for an independent second party opinion on the labelling of the issue as "green". In the absence of an independent second party opinion, Colchester will make its own determination that the issue can be labelled "green".
2. Secondly, we will monitor on an annual basis issuers' use of proceeds reporting by looking at their allocation report. In the absence of an allocation report we will either engage with the issuer or make an appropriate determination based on the information available.

Figure 2: Colchester's Green Bond Framework



Responsible investing is an integral part of the investment process however Colchester never makes investment decisions based solely upon ESG factors. Unless specified in the client Investment Management Agreement or offering documents, specific assets with poor ESG ratings may not be excluded from portfolios.

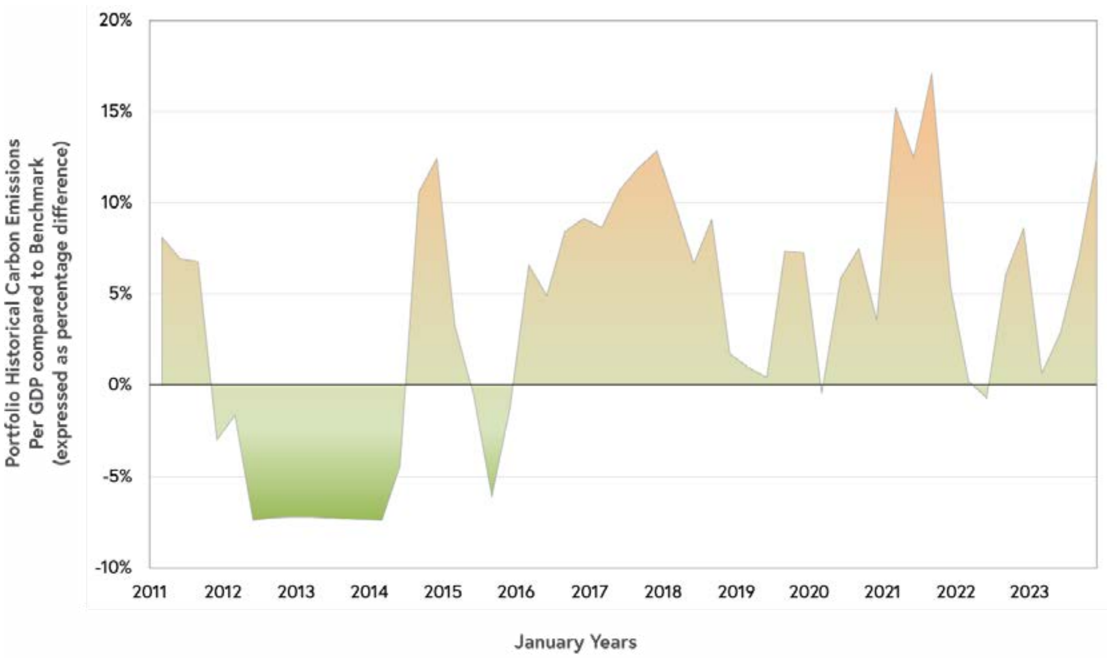
[9] Green-Bond-Principles-June-2021-140621.pdf (icmagroup.org)

In addition to our Green Bond Program, we have been exploring how to integrate sustainable investment objectives within dedicated client portfolios and potentially launching other dedicated pooled funds with explicit sustainable/climate mandates. Sustainable investment objectives can be used as a constraint within a mean/variance optimisation framework. We are able to improve the carbon emissions of a global bond portfolio compared to the FTSE World Government Bond Index (WGBI) or any other global bond index. Carbon intensity can be measured in a number of different ways:

- Tonnes of CO_2
- Tonnes of CO_2 per capita
- Tonnes of CO_2 per GDP
- Change in CO_2 measures over time

In order to calculate the historical cost of applying a carbon constraint to a portfolio, we run a simulation where we apply a constant set of country limits over time (maximum and minimum weights) for a given tracking error. The historical carbon emissions of this typical portfolio can be compared to the benchmark over time (Chart 7).

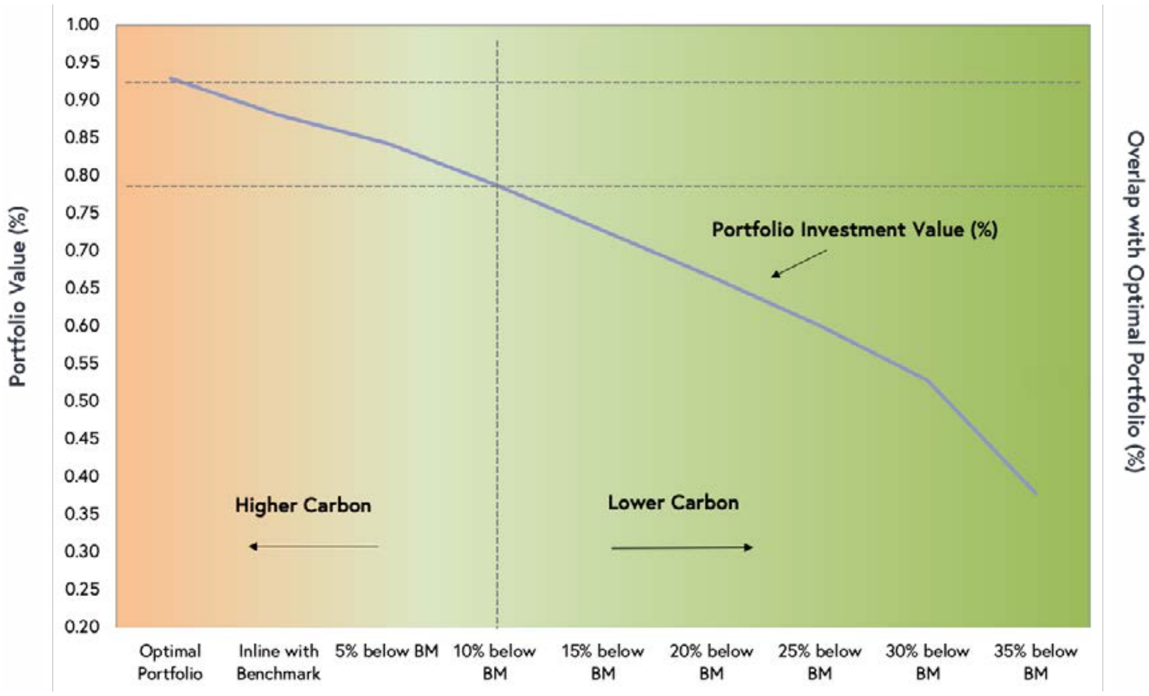
Chart 7: Historical Portfolio Carbon Emissions per GDP



Source: EDGAR Database as of 2022 and Colchester Global Investors, as of December 2023

We are then able to apply a carbon constraint to this 'typical portfolio' to see the effect this has on the investment value of the portfolio at each point in time. Chart 8 shows the effect that the carbon constraint has on the investment value of the portfolio at various levels (as at the end of December 2023. This 'efficient frontier' highlights the impact of alternative relative benchmark constraint targets on the bond portfolio investment value, at the specific point in time. Colchester's individual country investment value or expected return is determined by combining each source of value added of a country: prospective real yield, sector and duration/maturity. The weighted country investment values provide us with the bond portfolio investment value. It illustrates that there is a potential investment value trade-off as lower carbon outcomes are envisaged. It is worth noting that the analysis is based on historical carbon emissions, as forward looking equitable carbon emission pathways are currently being developed by the ASCOR project.

Chart 8: Trade off between portfolio value and lower historical portfolio carbon exposure



Source: FTSE World Government Bond Index, EDGAR Database, as of 2022 and Colchester Global Investors, as of December 2023

Dotted lines: Show an example of the Portfolio Value (%) for a portfolio with historical carbon exposure of 10% below the Benchmark's carbon exposure

More broadly the framework allows us to potentially improve the characteristics of the actual portfolio versus the sovereign benchmark on various measures. For example, such as historical carbon emissions, governance, social indicators, modern slavery, etc.

4.3.8 Climate change scenario modelling

Trying to assess the impact that climate change will have on economic and financial systems has many uncertainties. The forward-looking nature and the inherent uncertainty of these events make it difficult to assess them using standard risk modelling methodologies. Scenario analysis offers a flexible 'what-if' methodological framework that is better suited to exploring the risks that could crystallise in different possible futures. Like other practitioners in the field, our work will undoubtedly have to make many assumptions and simplifications, but we believe that it will enhance our understanding and help us to better assess these risks in our overall investment framework.

Modelling of Physical Risks

For assessing the possible impact of physical risk, we have developed a scenario analysis that uses a physical risk index that measures the susceptibility, coping and adaptation scores to extreme natural events. We use the WorldRiskIndex[10] together with historical costs to develop scenarios with an aim to better understand each country's debt profile by highlighting the fiscal impact of physical risk on a country's financial stability. Our physical risk analysis is based on three scenarios for global temperatures:

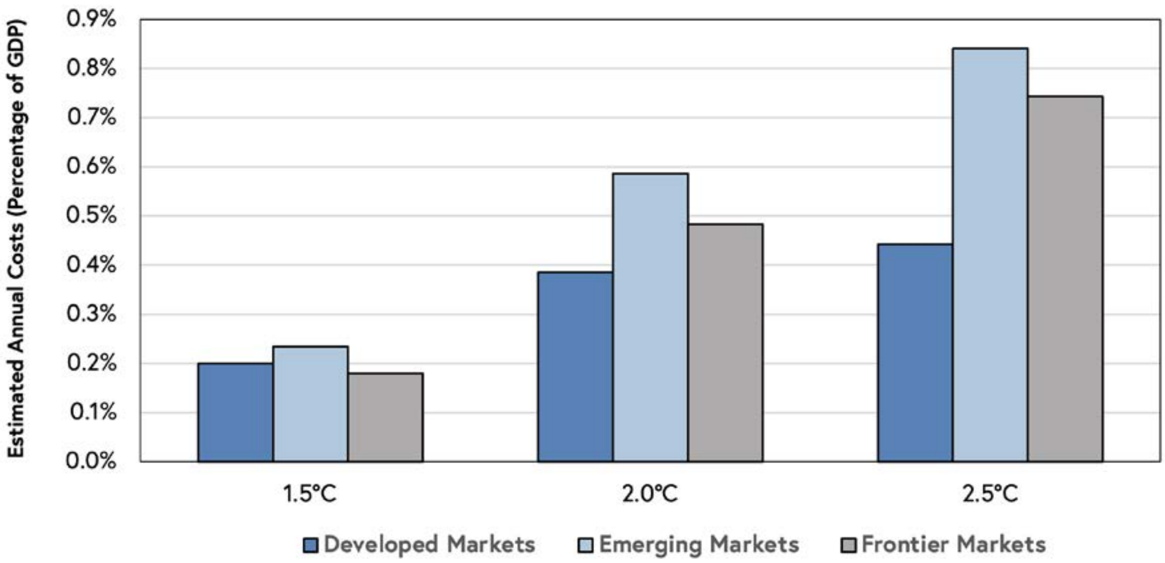
1. Meeting of net zero <=1.5°C
2. Divergent from net zero 2°C
3. Disorderly away from net zero >=2.5°C

[10] Please note that the WorldRiskIndex methodology changed from 2022 to 2023's data set, which had a noticeable impact on our analysis compared to the previous year.

Meeting the net zero objective implies that policies are introduced early and are orderly, limiting the global temperature to 1.5°C above pre-industrial levels and the physical risk impact on government balance sheets. In contrast, the disorderly third scenario, where only current mitigation and adaptive policies are preserved, will imply high physical risks and costs for countries. To help us assess the differences in the potential costs across the scenarios, we have referenced a study by Swiss Re, which estimates the regional impacts on the debt to GDP across the scenarios (we have not analysed their extreme 3.2°C scenario).

Colchester estimates the physical risk impacts upon each country's fiscal balance, under each temperature scenario and we use this analysis to further estimate the impact this may have on annual government debt balances. Under these three scenarios shown in Chart 9, the government debt balances for both the emerging and frontier countries are more likely to be more negatively impacted by increases in global temperatures than the developed markets, although the impact varies by country within each asset class. There will likely be an accelerated increase in government debt under our 2.5°C Disorderly Scenario. Therefore, many climate experts view the cost of transition towards a cleaner world not as a 'cost,' but as an investment in the future.

Chart 9: Estimated physical risk costs as a percentage of GDP



Source: Swiss Re, EM-DAT, CRED, WorldRiskIndex World Bank and Colchester, as of end of year 2023

Modelling of Transition Risks

Transitioning towards a cleaner world will be expensive and we see that the official estimates of these costs vary widely. Colchester's scenario analysis for transition risk focuses on the government costs of increasing spending on clean energy and the potential implication. The reduction in emissions and replacing fossil fuel, such as coal and oil with clean energy sources, such as wind, solar and hydro energies, requires funding and hence may have implications on countries' balance sheets. According to the International Energy Agency (IEA), only 17% of total annual global energy use is from clean energy.

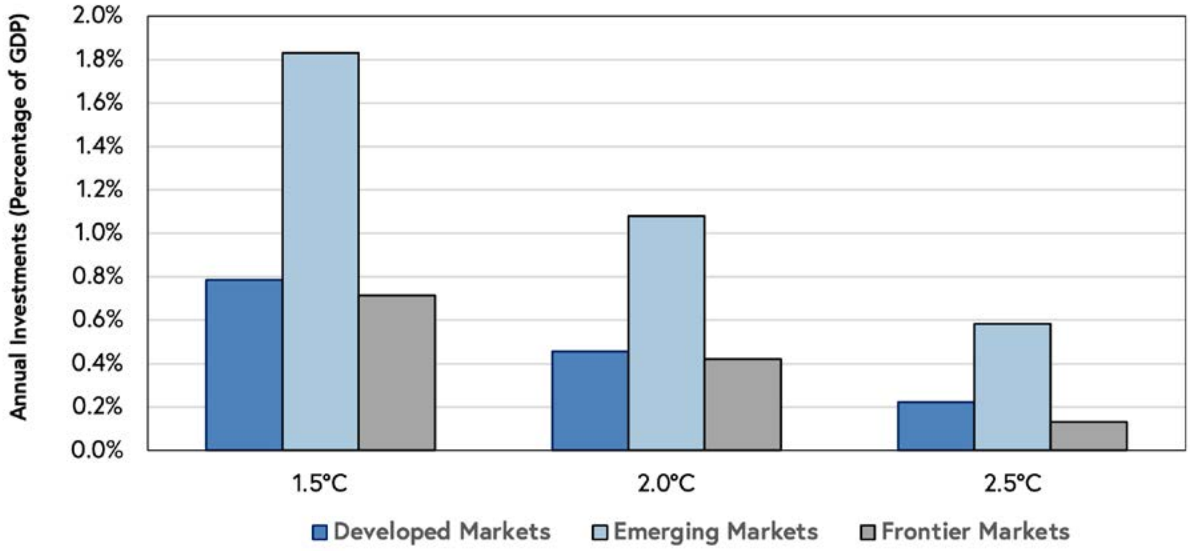
The IEA reported in their World Energy Outlook 2021, that the Announced Pledges Scenario[11] (2°C) will lift global clean energy production to 78% in 2050, mainly due to the reduction of coal and oil energy sources. This varies by region/scenario, with the developed world expected to do more as the temperature increases. The IEA also show that there needs to be a significant increase in annual investment spending from around US$ 1 trillion over 2016-2020 to nearly US$ 4-5 trillion total spend by 2030 and around 30% of this investment will need to be carried out by the public sector. Of the US$ 4-5 trillion required

[11] https://www.iea.org/reports/global-energy-and-climate-model/announced-pledges-scenario-aps

investment, the public sector is therefore expected to need to increase the rate of investment from US$ 363 billion (0.45% of global GDP) in 2020 to US$ 1.2 trillion annually by 2030 (1.5% of global GDP). Under the 2.0°C scenario, governments are expected to pay ca. US$ 708 billion per year (31% of the total share). Finally, the public sector bill under the 2.5°C scenario is projected to be US$ 363 billion per year (status quo). These public sector costs should plateau at around the same level for the period between 2030 to 2050. Our scenarios are centred and modelled on these estimations. This scenario requires the world to increase the rate of clean energy generation to 78% of total energy use by 2050, as implied by the IEA Net Zero emissions study. The 2.0°C scenario requires a 44% target whilst the 2.5°C scenario requires 31% clean energy.

We estimate the government investment on clean energy transition using the scenarios reported by IEA in their World Energy Outlook 2021. These detail the energy mix by different countries over time for the different scenarios. Some countries are closer to those targets and would require less investment than other countries. The model also takes into account the cost of various energy sources as well as cost reductions on new technologies over time. Chart 10 summarises our transition risk investment estimates for each of the three temperature scenarios.

Chart 10: Estimated government transition investments by 2050



Source: International Energy Agency, OurWorldInData, World Bank and Colchester Global Investors.

We at Colchester accept that our climate change assumptions will need to be updated overtime, but the scenarios do give us some insight into the scale of the potential contingent liabilities on each country's financial balance sheets. Over time we will look to improve our analysis by incorporating the country specific cost of migrating towards clean energy sources. We recognise that, over time, the cost of investment in new technologies might fall and hence it could be that our estimated costs are overestimated. Equally, the physical risks that we outline could be larger or smaller and may impact government balance sheets sooner or later than we have anticipated. At Colchester our financial stability analysis is evidence based and we will probably revise our assumptions as and when we receive new information.

Lastly, Colchester is an active participant in industry efforts to devise appropriate sovereign frameworks. An example of this industry framework development is the collaborative industry initiative of the 'Assessing Sovereign Climate-related Opportunities and Risk Project' – the ASCOR Project (for more information see section 4.3.5).

4.4 Risk Management

A consistent Risk Management Framework is embedded across Colchester and all its entities, comprising our governance, risk management process and risk appetite. Colchester's Risk Management Framework emphasises and balances strong central oversight and control of risk with clear accountability for and ownership of risk within each operational area. This includes risk oversight committees with clear roles and responsibilities. The three lines of defence are the risk structure deployed by the firm for the risk management, risk oversight and independent assurance that the risk framework is operating effectively. The Group's risk framework has added climate and sustainability risks within the Risk Framework taxonomy. The risk assessment process takes a structured approach to identify the individual climate and sustainability risks and their mitigating controls on a risk register and it assesses the risks on an inherent (before controls) and residual risk (after controls) basis in terms of a scaled likelihood and impact (financial, client, regulatory and reputational).

This risk assessment and risk register along with proposed actions is presented at the Business Risk Committee & TCFD Advisory Committee on an annual basis. The Risk department utilises the risk register to perform their ongoing independent measurement of the risk and the efficacy of the controls for the risk mitigants. The Investment Team are responsible for evaluating environmental, social and governance risks and opportunities for all markets.

The Risk Team measures and monitors risks, including climate risks, against limits. In addition to producing quantitative analysis, the Risk Team works to support the Investment Team to ensure that portfolio risks are well understood, and are consistent with the investment process. This helps to ensure that such risks are understood and deliberate. Internal audit provides independent assurance of the effectiveness and adequacy of the risk management, control and governance processes employed.

Business Continuity and Disaster Recovery Plan

Business Continuity ("BC") is defined as the capability that allows a business to continue production processing without material disruption to clients or client information during a business interruption. Disaster Recovery ("DR") refers to those technology-related processes that facilitate recovery of the production computing environment in the event of a disaster. In the event of a business interruption, Colchester has a duty of care to its staff, clients, stakeholders and the broader community. Colchester continuously invests time and resources into business continuity and disaster recovery planning so that it is able to sustain its activities in the event of an unexpected shock or dislocation. The overriding aim of Colchester's BC/DR Plan is to ensure continuation, with minimal interruption, of its critical business operations. Its BC/DR arrangements are managed by the BC/DR Committee which is led by the London Chief Operating Officer.

4.5 Metrics and Targets

4.5.1 Operational metrics and targets

As part of our ongoing commitment to environmental sustainability, Colchester has completed an exercise of estimating greenhouse gas (GHG) emissions, including relevant indirect emissions, across the Group. The analysis was undertaken again by a third party, Unravel Carbon. The analysis shows that whilst unsurprisingly, Covid had a meaningful impact on energy consumption in Colchester's offices, the post-Covid working environment has been carefully managed.

It is anticipated that the retirement of both Colchester's on-premises servers and UK disaster recovery site as well as its travel policy will provide a positive impact on Colchester's emissions.

4.5.2 Introduction and methodology

The emissions calculations completed represent the GHG impact of Colchester for the 2022/23 reporting year (May 2022 – April 2023). For the 2022/23 period the reporting methodology has been updated and a new reporting system is in use, using automated GHG emissions calculations to streamline the reporting process. The reporting boundaries remain the same as previous. GHG emissions are classified as either Scope 1, Scope 2 or Scope 3. Scope 1 emissions are direct emissions that occur from a company's facilities e.g. fuel combustion, fugitive emissions, industrial processes, etc. Scope 2 emissions are indirect emissions associated with purchased energy e.g. purchased electricity, purchased heat or purchased cold energy. As the direct (Scope 1) emissions are generated by the producer of that energy, these are accounted for as indirect emissions. Scope 3 emissions are the remainder of indirect emissions that occur as a result of company operations. There are 15 categories of Scope 3 emissions in total, ranging from purchased goods and services through to downstream use of products.

When developing the GHG emissions inventory for Colchester, the first step was to set the organisational boundaries, followed by the facility boundaries. From an organisational point of view, Colchester Global Investors Limited was taken as the parent entity for the inventory. It is acknowledged that different companies exist in the corporate Group under the parent organisation, but all emissions are ultimately assigned to the parent in this case. To draw the organisational and facility boundaries, the principles of the GHG Protocol[12] were used. With respect to the GHG Protocol, the principle of operational control[13] was used to determine the facility boundaries and set what is a Scope 1, Scope 2 and Scope 3 emission. As a result of a high-level assessment of operational control, it was deemed that the office locations that Colchester has make up the facilities for the purposes of GHG reporting. These are:

- United Kingdom – 1st floor, Savile Row, London
- United Kingdom – 4th floor, Savile Row, London
- Singapore – #40-02A Battery Road
- USA – Third Avenue, New York
- UAE – Index Tower, Dubai
- Australia – Hunter Street, Sydney
- Ireland – Ballsbridge, Dublin

Emissions associated with direct fuel combustion and purchased energy at these facilities are Scope 1 and 2 emissions respectively. In each of these cases, Colchester is leasing tenancies from the building owner, so it does not have operational control of plant and equipment such as central boilers. A check of emissions points with each tenancy indicated that there are no direct emissions from each, so therefore no Scope 1 emissions are reportable. Similarly, Colchester does not own any vehicles so there are no recordable Scope 1 emissions from those either.

Scope 2 emissions are therefore the only contributor to the emissions inventory from these facilities. To estimate these, purchased electricity data was used – combined with the grid emissions factors available for each of the locations of the offices. As with all grid emissions factors, they change from year to year, so the relevant published information for the grid emissions intensity in each year was used.

From an operational control point of view, Colchester only has operational control of facilities in London and Singapore. The person with the greatest authority to introduce and implement policy is the person with operational control – which is Colchester for London and Singapore operations. Other offices within the group are serviced offices. Where previously, these were recorded as scope 2 emissions, it is more correct to consider these to be Scope 3 emissions under the category of upstream leased assets.

To estimate Scope 3 emissions, the first step was to determine the materiality of the Scope 3 emissions categories. Of the 15 scope 3 emissions categories, the following were determined to be most material:

[12] The GHG Protocol, by the World Resources Institute, is a global standard to development of GHG emissions inventories.

[13] In this, the person with authority to introduce and implement operational, environmental and health and safety policy is the person with operational control.

- Purchased goods and services – embodied emissions associated with operating purchases
- Purchased capital goods – embodied emissions associated with purchased capital items
- Waste generated – emissions associated with treatment of waste
- Business travel – emissions associated with business travel
- Upstream leased assets – emissions associated with leasing of space or equipment where the reporting company does not have operational control of that asset
- Employee commuting – emissions associated with employees travelling from home to work

It is noted that the most material Scope 3 emissions source of all are those associated with investments – given the nature of Colchester's business. This was not included in this year's emissions inventory. Methodologies for calculating sovereign bond financed emissions, carbon emissions intensity and other climate-related metrics[14] are still developing, as data availability and methodologies mature (see ASCOR) portfolio investments may form part of the future emissions inventory.

To estimate the Scope 3 emissions for Colchester, the guidance provided in the GHG Protocol Scope 3 Standard was utilised. Calculations completed were in line with this guidance and used GHG Protocol tools where appropriate – supplementing with additional calculation techniques were necessary. Emissions factors used were from reputable sources and databases and noted within the Unravel Carbon platform – which has been used to calculate GHG emissions.

4.5.3 Key Results

For the 2022/23 reporting year (1st May 2022 to 30th April 2023), the key results for the overall emissions are shown below.

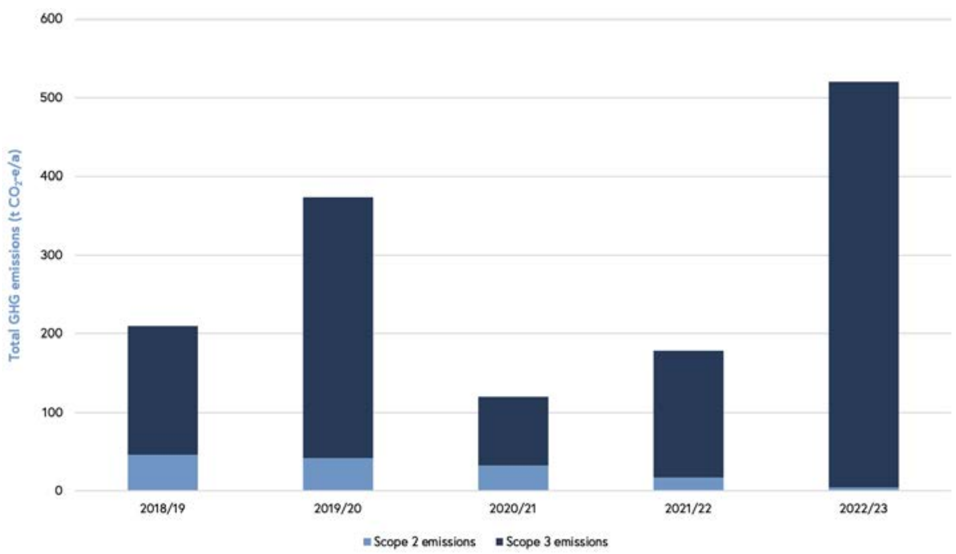
All data is presented in tonnes of CO_2-equivalent

Emissions Scope	2022/23 emissions	2021/22 emissions	% change
Scope 2 emissions	4.27 t CO_2-e	17.8 t CO_2-e	76% reduction
Scope 3 emissions	516.0 t CO_2-e	160.7 t CO_2-e	221% increase
Total	**520.2 t CO_2-e**	**178.4 t CO_2-e**	**192% increase**

Source: Colchester Global Investors and Unravel Carbon Platform, 1st May 2022 to 30th April 2023

A Chart 11 shows 2022/23 emissions and the previous three years.

Chart 11: Total emissions by year



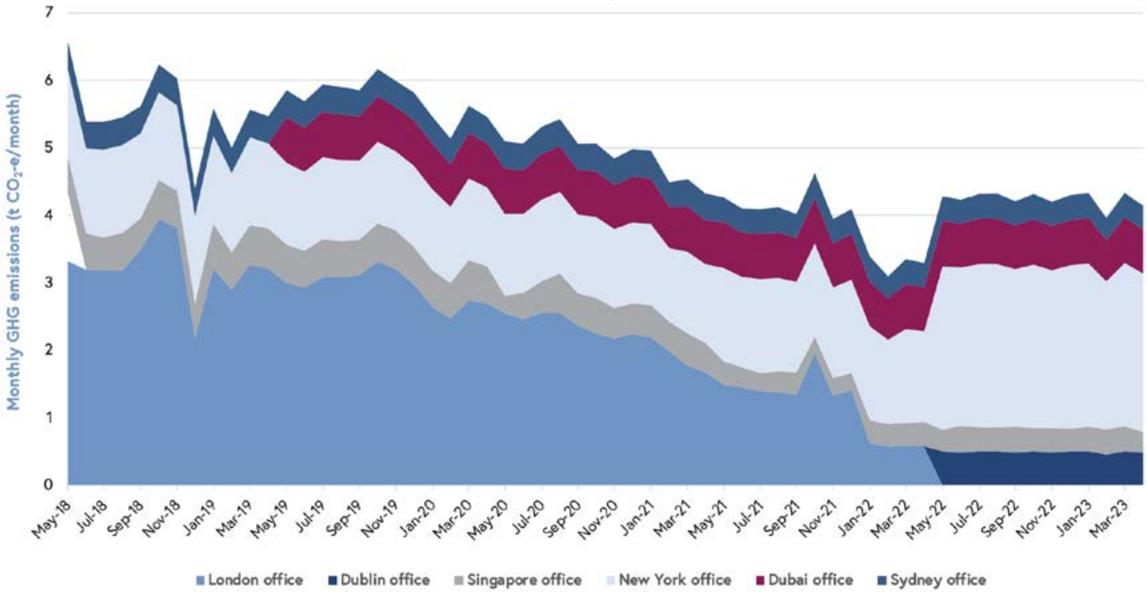
Source: Colchester Global Investors and Unravel Carbon Platform, 1st May 2022 to 30th April 2023

[14] Partnership for Carbon Accounting Financials (PCAF), Financed Emissions, December 2022, https://carbonaccountingfinancials.com/standard

Total emissions are higher than the previous year – with this increase being seen in Scope 3 emissions primarily. The primary cause for this is an increase in emissions relating to business travel and the company's offsite in the UK. Employees flew in from the respective global offices and some were accompanied by family members. We believe that these occasional in person company meetings are important to foster Colchester's culture and values of the firm.

The trend of Scope 2 emissions on a monthly basis, organised by office, is shown in Chart 12.

Chart 12: Scope 2 monthly emissions by office



Source: Colchester Global Investors and Unravel Carbon Platform, 1st May 2022 to 30th April 2023

Scope 2 Monthly Emissions by Office

The emissions estimations for New York, Sydney, Dubai and Dublin were generated using industry standards for energy intensity of buildings in those locations and the rented floor area in each case. Individual metering of these locations was unavailable, so estimates were required to determine the energy consumption and therefore emissions. As mentioned previously, these are now classified as Scope 3 emissions for the serviced offices, rather than Scope 2 emissions.

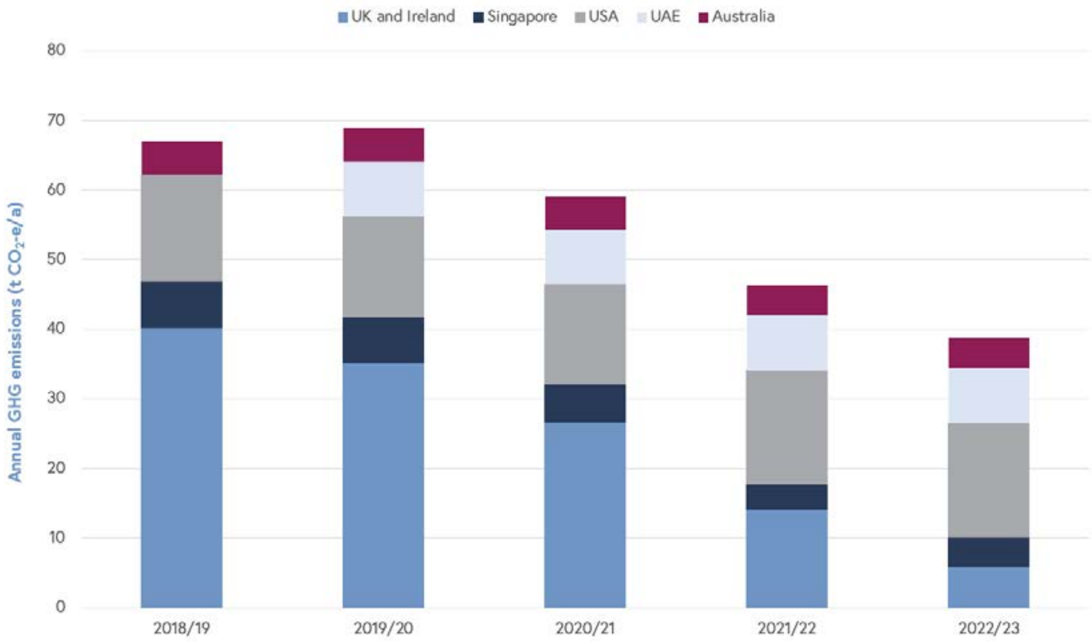
The overall emissions associated with electricity consumption in the offices has remained relatively flat compared to the previous year.

The UK offices, being the largest offices, have seen the largest reduction in emissions over this time period. For the entirely of the 2022/23 reporting period, renewable energy was purchased for the London Office – this has been accounted for and is reflected as zero emissions for this office during the year.

Grid emissions factors in the UK and Australia have decreased in the 2022/23 reporting year – also contributing to a reduction in emissions overall (Scope 2 emissions). The US and UAE grid emissions factor is similar to previous years.

The breakdown of Scope 2 emissions by country is shown in Chart 13.

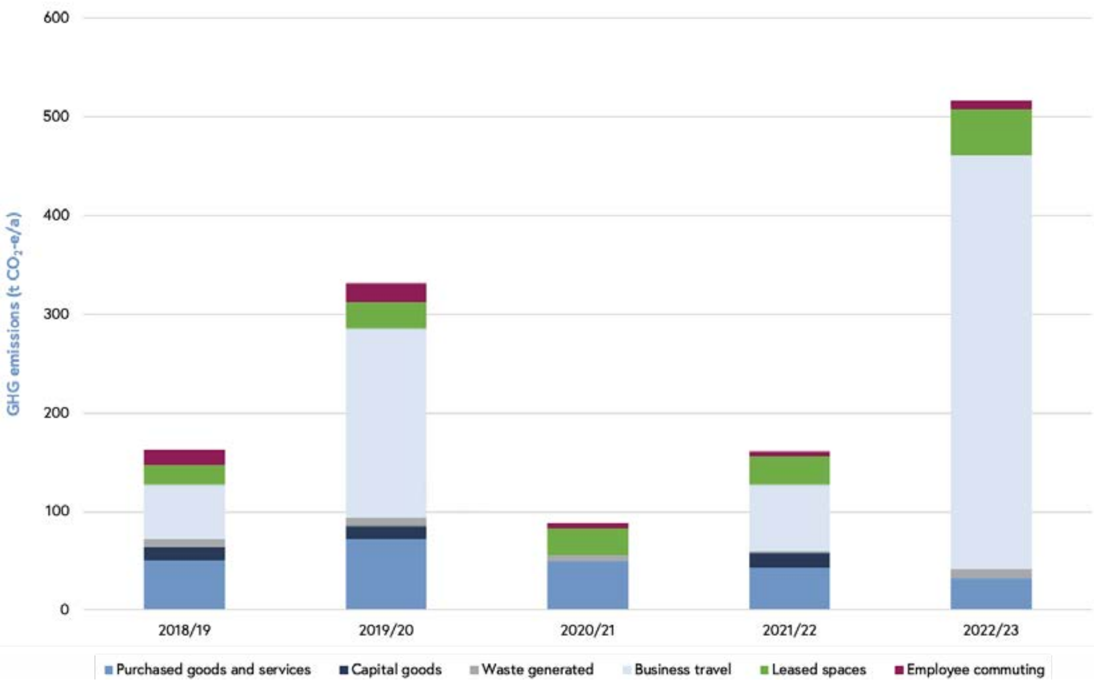
Chart 13: Scope 2 emissions by country



Source: Colchester Global Investors and Unravel Carbon Platform, 1st May 2022 to 30th April 2023

The breakdown of Scope 3 emissions by category is shown in Chart 14.

Chart 14: Scope 3 emissions by category



Source: Colchester Global Investors and Unravel Carbon Platform, 1st May 2022 to 30th April 2023

Scope 3 Emissions by Category

As previously mentioned, the increase in business travel emissions is driving an overall increase in Scope 3 emissions compared to the previous year. The main cause for this is increase in emissions relates to business travel and the company's offsite in the UK. Employees flew in from the respective global offices and some were accompanied by family members. We believe that these occasional in person company meetings are important to foster Colchester's culture and values of the firm.

Emissions associated with purchased goods and services are automatically calculated by the Unravel Carbon platform and are a little lower than previous years. Other calculated categories, such as waste and employee commuting do remain broadly consistent with previous years also.

4.5.4 Initiatives and targets

Colchester has implemented a number of initiatives that should improve the company's emissions. These include the energy savings and efficiency opportunities around moving to cloud computing and other areas of improvement. The recycling programs in waste management and water savings devices are also ongoing and contributing to emissions reductions. Colchester is also actively purchasing renewable energy in London – with this being reflected in the results.

The company is continuing to investigate the potential of broadening the breadth of the Scope 3 emissions inventory and including the emissions intensity of investments in the calculations.

Colchester is continuing to explore the possibility of setting emissions reduction targets. We recognise however that decarbonisation and sustainability are a journey and commit to incrementally improve over time now that this baseline of performance has been set. As a responsible corporate citizen, Colchester is committed to managing the business economically whilst working towards environmental sustainability.

Other Operational Measures:

Energy providers

Colchester is only able to select the energy provider for the 4th floor of its London office at this time and this floor has transitioned to use renewable energy. In all other instances the landlord selects the energy provider, but Colchester continues to reach out to these landlords to ascertain their plans to move to renewable energy.

Travel Policy

Colchester is committed to reducing the environmental impact of travel. Where appropriate, staff use video conferencing software, public transport, fly economy (given the large reduction of carbon emissions per mile by flying economy compared to business class) and plan research and client trips efficiently.

Recycling

Colchester partners with First Mile for waste management in London, where Colchester's Head Office is located. First Mile recycles batteries, printer toner cartridges, IT equipment, recyclable materials (plastic, paper, cardboard etc), confidential paper and food waste. The general waste (everything else) collected by First Mile is sorted further for recyclables and the remaining waste is safely incinerated. Electricity and heat are captured from the process. Electricity is sent to the UK's National Grid, while the heat is used to provide heating and hot water to over 100,000 homes. The ash by-products from this process are used in the construction industry. First Mile also use electric waste vehicles, meaning their waste collection has an even smaller environmental impact.

As at 30th April 2023, Colchester's London recycling rate was 77% over the previous 12 months.

Colchester recycles waste in its other global offices but is unable to select the waste management companies involved as they are selected by the local landlord. Waste related emissions are estimated based on the number of people, typical waste generation and the fate of waste in that particular country.

Volunteering/ Environmental and Sustainability Champions Program

Colchester's global offices have been involved in volunteering for various local community projects, some of which aim to have a positive environmental impact. Singapore office staff spent time on supporting the local community with food security.

Colchester's London office is planning for some staff to volunteer with the Felix Project, who are a food redistribution charity in London fighting food water and hunger. This is currently planned for February 2024.

Singapore office - Foodbank Volunteering

The Environmental and Sustainability Champions, are a team of Colchester staff that play an essential role in supporting our sustainability values, goals and strategies by identifying ways that both Colchester and its staff can become more environmentally and sustainability focused. The champions most recent project includes approaching some 3rd party vendors to try and find ways of reducing the amount of paper consumption, in several of the client reporting processes employed. Certain new investors have consented to electronic delivery of tax information and existing investors have been approached to opt in to electronic delivery. Colchester continues to identify other areas where electronic delivery can replace physical printing.

Other opportunities suggested by the Environmental and Sustainability Champions, some of which have been implemented include the use of recycled stationery and office supplies. The cycle to work scheme has been re-promoted in the London office to encourage sustainable journeys to work and has been set up for the Irish office. The scheme also allows for reductions in tax when commuting by public transport, thereby encouraging sustainable commuting.

Reconditioned IT equipment

Where possible and appropriate, Colchester endeavours to purchase reconditioned IT equipment. Given Colchester's move to the use of Windows Virtual Desktops, physical desktop PCs do not need to be as powerful or replaced as regularly as they might need to be otherwise. 100% of work from home PCs supplied by Colchester are reconditioned.

5. Evolving Global Climate-Related Regulations

Globally, regulators and lawmakers are placing increased focus on regulations relating to sustainability with the overall aim of reconciling economic performance with a positive social and environmental impact. Colchester is committed to keeping abreast of these developing regulations and ensuring ongoing compliance. This section provides a snapshot of the key regulations impacting Colchester and its global offices.

Colchester has implemented the regulatory disclosures which were brought in by the EU's Sustainable Finance Disclosures Regulation (SFDR) on 10 March 2021. SFDR has ensured sustainability-related disclosures are implemented across the EU and beyond by financial market participants, thus leading to greater transparency for investors and ultimately more ESG focus across the asset management industry. The Level 2 SFDR Regulatory Technical Standards, which specifies the content, methodology and presentation of the SFDR disclosures, came into force on 1 January 2023. Also in Europe, we have seen the introduction of the Taxonomy Regulation, which expands on these disclosures and establishes a common language to identify whether or not an economic activity should be considered "environmentally sustainable". Additionally, the EU Delegated Acts amending the UCITS Directive, Alternative Investment Fund Managers Directive (AIFMD) and Markets in Financial Instruments Directive II (MiFID) II were introduced in August 2022 and necessitated the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions of investment firms.

In the UK, the Financial Conduct authority (FCA) has published an ESG Sourcebook, which sets out rules on climate-related disclosures for asset managers, based on the TCFD. The FCA has however extended the scope beyond the recommendations in the TCFD to include additional sustainability-related disclosures at the product level. The FCA rules apply to UK asset managers on a phased in approach, with the first report due in June 2024 for Colchester and other similarly sized asset managers. The aim of the UK government is to implement these mandatory TCFD-aligned obligations across the UK economy by 2025.

Outside of the Eurozone, mandatory ESG disclosures, reporting requirements and the integration of sustainability risks have been brought in by a number of jurisdictions. In Singapore, the Monetary Authority of Singapore's (MAS) "Guidelines on Environmental Risk Management (Asset Managers)" came into force in June 2022. The MAS Guidelines are intended to drive the transition to a green economy through integrating environmental risk considerations in investment decisions. As with TCFD and other regulations, much of

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the focus of the Guidelines is to ensure proper governance over climate-related issues, and on making adequate disclosures to investors. Colchester Singapore holds a capital markets services license and as such the MAS Guidelines have been adopted. In April 2023, MAS also launched its Finance for Net Zero Action Plan which sets out its strategies to mobilise financing to catalyse Asia's net zero transition and decarbonisation activities in Singapore and the region.

In Australia, the Australian Prudential Regulation Authority (APRA) released its prudential practice guide on climate change financial risks, which is designed to assist APRA-regulated entities in managing climate-related risks and opportunities. Such recommendations are aligned with the TCFD, and cover sound practice for governance, risk management, scenario analysis and disclosure for such regulated entities. In New Zealand, the government has passed legislation making climate-related disclosures, which largely align with that of TCFD, mandatory for some financial organisations. The goal of these disclosures is to ensure that the effects of climate change are routinely considered in business and investment (amongst others) decisions, to help entities better demonstrate their responsibilities and lead to more efficient allocation of capital, and help smooth the transition to a more sustainable, low emissions economy. Mandatory climate-related disclosures will help New Zealand achieve its target of net zero carbon by 2050. Whilst Colchester is not regulated in New Zealand, we are working with New Zealand based clients to help with their climate- related obligations.

The UAE's leading financial authorities, including the Dubai Financial Services Authority (DFSA), have published the country's first set of 'Guiding Principles on Sustainable Finance' which is intended to serve as a catalyst for the implementation of the UAE's sustainability priorities. The Guiding Principles, which remain voluntary at the moment, include the integration of ESG factors into governance, strategy and risk management, as well as ESG-related reporting and disclosure requirements.

As is clear from the developing regulations globally, climate risk is an increasingly important and vital aspect of a financial market participant's operations. The changing regulatory landscape is a push for the finance industry to have a more sustainable focus, and Colchester is committed to meeting these standards.

6. Our Approach to Corporate Social Responsibility (CSR)

Colchester is committed to investing and operating responsibly. As a growing company we aim to manage the business with minimum wastage of resources. Colchester monitors its global operational sustainability and has introduced initiatives and taken measures across its offices to do what it can to reduce our use of energy, water and paper across all our offices to protect the environment and improve sustainability.

Colchester published our annual CSR report in May 2023. The report discusses the nine elements of Colchester's approach to Corporate Social Responsibility encompassing: ESG-Integrated Investment Process; Signatory, Affiliation and Collaboration; Sovereign Engagement; Client Service and Engagement; Stewardship and Corporate Governance; Operational Resilience and Sustainability; Diversity and Inclusion; Employee Engagement and Society.

We actively promote integrity, trust and humility, all of which form part of our core values. We understand that being good at what we do takes collaboration, teamwork and respect for each other and we work hard to embed this into our inclusion efforts. Fostering this inclusive culture is crucial to our employees and clients who are at the heart of everything we do.

Team building during J.P.M. Chase Corporate Run

Employees celebrating International Women's Day across Colchester's global offices.

We seek to attract and retain employees by providing a rewarding employee experience that encourages staff to act in the best interests of our clients. From their first day at Colchester, we work to welcome employees into a culture that is respectful, humble, collaborative and fosters a sense of belonging.

In September 2022, we celebrated our overdue 20-year anniversary by holding an in person, all employee offsite meeting. This provided a fantastic opportunity for our employees to network with each other in a relaxed informal setting, attend informative development training sessions to reflect on the culture of Colchester over our 20-year history and put forward recommendations on what we need to do to evolve this further to ensure success over the next 20 years. We ran externally facilitated sessions, which provided all employees the opportunity to share what they thought was going well and what we could do more of to make our culture even better.

We deliver programmes and create policies that embed Equality, Diversity and Inclusion (ED&I) in our operating and governance models. Our aim is to strengthen our culture whether employees are working in the office or virtually. We believe all employees share responsibility in building a culture where everyone feels they belong, so all employees complete annual online discrimination and harassment, diversity and inclusion and unconscious bias training to provide the language, tools and resources to enable them to recognise unconscious bias, appreciate and value culture differences and create allyship. In 2023, we enhanced our internal training offering to include Neurodiversity training. Neurodiversity is a core part of our organisation and something that we feel should be nurtured and leveraged if we are to benefit from true "diversity of thought".

20-year anniversary all-employee offsite

Our Global Footprint

Regional breakdown of headcount

Our Data

We strongly believe in data as a tool to better understand our people. Where possible, we collect data on categories including age, ethnicity, faith, gender, sexual orientation and socio-economic background across our global workforce. We use this data to build a comprehensive picture of our organisation, where progress has been made and where we have more to do.

In 2023, we conducted an updated global data collection exercise to refresh the data we hold on our employees.

Employee Facts & Figures

Employee Snapshot (as of 1 August 2023)

40% of our Employees globally identify as female *(11% prefer not to say/opt out)*

40% of our Board identify as female

36% of our Senior Management Team* identify as female

31% of our Investment Officers identify as female

41yrs Average employee age

70% of our Employees have a BSc or BA or higher *(13.5% prefer not to say/opt out)*

41% of our Employees were the first generation in their immediate family to attend University *(15% prefer not to say/opt out)*

57% of our Employees attended State-run or State funded schools *(15% prefer not to say/opt out)*

42% of our Employees speak 2 or more languages *(12% prefer not to say/opt out)*

A total of **21** different languages are spoken across Colchester

These include English, Arabic, Cantonese, Croatian, Finnish, French, German, Greek, Gujarati, Hindi, Irish, Italian, Korean, Kurdish, Malay, Mandarin, Maltese, Portuguese, Shona, Spanish, and Urdu

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*Senior Management Team (SMT): Directors and Global Heads of Department who attend SMT Meetings

Acting as a responsible corporate citizen is a key priority for Colchester and our initiatives in this arena are constantly under review against industry best practices. We encourage all employees to volunteer and give back to the communities where they live and work and to support causes and organisations, they are passionate about.

In 2023, we continued to advance our early careers programmes, partnering once again with #10,000 Black Interns to encourage those from traditionally underrepresented groups to consider a career in the Investment Management industry.

We also enhanced our summer intern programme to include presentation skills training and informational learning workshops from Senior Leaders across all disciplines. This gave our interns the opportunity to improve their soft skills and gain a broader understanding of the business as a whole, not just the specific department they were assigned to.

Our New York office volunteering at a local food bank.

London staff cleaning up the River Medway

7. Contributors and TCFD Advisory Committee

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Senior Executive Officer, Global Head of Marketing & Client Services

Emma Amara
Global Head of Finance

Trevor Denton
Chief Executive Officer, London

Laura Evans
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Claudia Gollmeier
Managing Director (Singapore), Senior Investment Officer, Chair of TCFD Advisory Committee

Alberto Martin-Martin
Head of Risk & Analytics

Vicki Pett
Global Head of Human Resources

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