Colchester GLOBAL INVESTORS

ESG Engagement Report

July 2022

Introduction

In our last report we highlighted the challenges some countries face in their path to reducing carbon emissions and setting targets for net-zero. As the world continues to shift toward a more 'sustainable' way of living, it is grappling with rising prices. Russia's invasion of Ukraine in February exacerbated global inflationary trends and, at least in the short term, complicated the transition path to clean energy. While the current geopolitical backdrop has called for governments to rethink their energy and food security policies, the pain caused by persistent inflation has disproportionately impacted the most vulnerable sections of society. Meanwhile central banks, fearing they are 'behind the curve', are tightening monetary policy and potentially slowing global economic growth.

Despite further pledges to reduce carbon emissions following the COP26 in November last year, the Ukraine-Russia conflict came at a time when there was already insufficient progress towards net zero. It remains unclear whether the scope of the conflict will be contained or widen. For some countries, the path to transition could be derailed as rising energy prices may drive capital to fossil fuel production from decommissioned assets. While other countries may see this as an opportunity to push their energy transition, previously viewed with a timeline of several decades, with renewed urgency. Whatever path, net zero is only possible with commitments from public, private and wider civil society, and requires recognition that renewables are the long-term solution to cheaper and more efficient energy sources as well as a more sustainable future.

In this report, we share more country engagements highlighting transition efforts towards renewable energy production, policies to deal with energy supply challenges and programmes aimed at reducing areas of poverty in society against the backdrop of record levels of inflation. We also document our continued efforts to encourage governments to improve transparency and inclusivity in the budgeting process, ensuring needs of society are met and public funds are appropriately spent. Finally, we include examples of our collaborations with industry-level peers, to demonstrate the integration of ESG into our investment process.

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Summary of Engagements

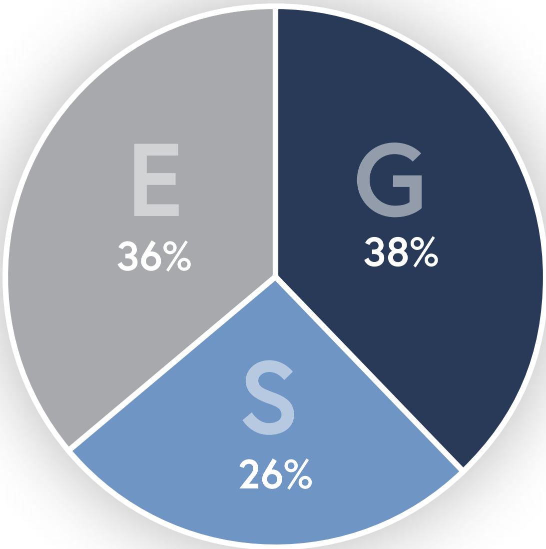
26 Engagements and 47 Issues

54% of engagements with Government Officials

38% of engagements are Industry-level collaborations

8% of engagements are with non-Issuer Stakeholders

H1 2022 Engagement Activities



Engagements Listed in Detail

Government Engagements

9/03/2022	Australia	Shadow Finance Minister of Australia	Upcoming elections in May and discussion on pre-election pledges that could impact climate change, social and governance policies.
7/03/2022	New Zealand	New Zealand Finance Minister	Discussion on how the Agricultural sector can be included in a carbon emission pricing mechanism.
8/03/2022	New Zealand	Representative from Debt Management Office of New Zealand	Discussed timetable for new green bond issuance and the details of the framework.
10/03/2022	Australia	Representative from the Australian Office of Financial Management	Discussed whether there are plans to issue Green Bonds and how this would impact pricing versus non Green bonds.

28/03/2022	Kazakhstan	National Bank of Kazakhstan Presentation by Deputy Governor	Government policy to deal with food price spike to protect the poor via price caps.
30/03/2022	Vietnam	Vice Trade Minister of Vietnam and Vietnam Ambassador to UK	Pursuing further understanding of how Vietnam will hit net zero in 2050 following country pledge in COP26.
14/04/2022	Pakistan	Governor of State Bank of Pakistan	Government has launched program to subsidise mortgages for low-income households and how this impacts budget planning.
24/04/2022	Pakistan	Pakistan Minister for Finance & Revenue	IMF bailout Programme for sustainable recovery will require removing subsidies but will impact vulnerable sectors of society.
17/05/2022	India	Investor roundtable with Reserve Bank of India officials	Improvement to the accessibility of the government bond market for foreign investors.
11/05/2022	Philippines	Representative of the Philippines Bureau of Treasury	Discussions on the integration of sustainable principles and ESG considerations in banks' corporate and risk governance framework to ensure the strength of financial institutions.
23/05/2022	Hungary	Representative from the Hungary Debt Management Office	Recent 30-Year Green bond issuance in Hungary. Engagement on the scheduling of green bonds going forward.
24/05/2022	Hungary	Representative from the EU Commission	Discussing the breach of the Rule of Law by Hungarian government according to the EU and the potential for withholding of EU funding.
25/05/2022	Poland	Representative from the EU Commission	Thoughts on carbon tax to encourage the decarbonisation process in Poland.
25/05/2022	Poland	Representative from the Poland Ministry of Finance	FIT FOR 55 EU initiative - to encourage decarbonisation. Advocating Green bond issuance, carbon tax and implications of the Family 500+ policy.

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Industry Engagements

24/03/2022	Global	Global ESG Survey	Completed EMIA World Bank survey on Sovereign ESG Data.
23/03/2022	Australia	Seminar on ESG to investors in Adelaide	Presentation on Colchester's integration of ESG into investment process.
24/03/2022	Australia	Seminar on ESG to investors Melbourne	Presentation on Colchester's integration of ESG into investment process.
29/03/2022	Australia	Seminar on ESG to investors in Brisbane	Presentation on Colchester's integration of ESG into investment process.
30/03/2022	Australia	Seminar on ESG to investors in Sydney	Presentation on Colchester's integration of ESG into investment process.
13/04/2022	Indonesia	Investors Policy Dialogue on Deforestation (IPDD) - Indonesia	Reviewing the progress of IPDD in Indonesia. Engaged with the Indonesian authorities relating to Green Financing.
14/04/2022	Brazil	Investors Policy Dialogue on Deforestation (IPDD) - Brazil	Reviewing the progress of IPDD in Brazil. Engaged with Brazilian authorities to encourage a number of desired outcomes to reduce the impact from deforestation.
25/04/2022	Israel	Seminar on ESG to investors in Tel Aviv	Presentation on Colchester's integration of ESG into investment process.
14/06/2022	Global	ASCOR Advisory Committee	ASCOR 2022 Progress Report - Collaborative work to develop the framework and tools to capture and monitor climate change risk.
15/06/2022	Malaysia	EMIA engagement with Ministry of Finance	Encourage better government budget transparency such as spending in the Malaysia Energy Transition Plan 2021 – 2040.

Other Engagements

26/01/2022	Turkey	Bloomberg Index Consultant Group	Provided feedback on inclusion of Turkish linkers in the EMTIL benchmark.
9/06/2022	Indonesia	Pertamina (SOE)	Implication and how the company plan to finance the transition to renewable energy.

Global Bond Strategy Engagements

New Zealand

New Zealand's electricity generation is already around 80%[1] renewables, higher than most countries in the OECD. Given the country's abundance of natural resources over half of that is provided by hydro power. New Zealand is aiming to reach 100% electricity generation through renewables by 2030 and to accelerate the electrification of the transport and industrial sector. These targets also form part of the 'Emission Reduction Plan' which sets the direction for climate change initiatives over the next 15 years and ultimately the achievement of net zero by 2050.

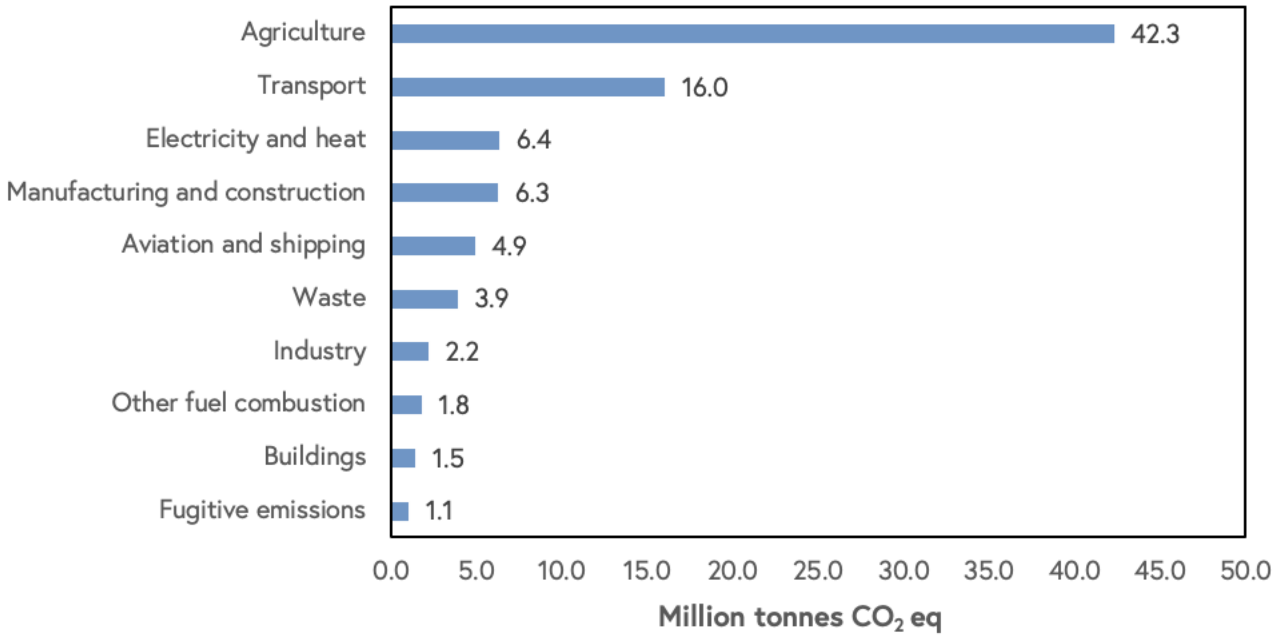
While New Zealand is credited for the development of renewable electricity generation, the country continues to face challenges in the sectors that contribute to highest greenhouse emissions. Nearly half of New Zealand's emissions (see Chart 1) come from the agriculture sector, mainly methane from livestock, and around a fifth from the transportation sector. In our engagement with the Minister of Finance we asked about how the government was proposing to address agricultural emissions. He shared with us the plan for the agriculture sector, to be included in the country's Emission Trading Scheme (ETS[2]) – a market driven carbon pricing mechanism. To date the sector had been exempted from carbon emission charges, and therefore shielded from the application of a carbon tax. The ETS requires businesses to i) measure and report on their greenhouse gas emissions, and ii) to surrender one 'emission unit' or New Zealand Unit (NZU) to the government for each tonne of emissions they emit. The scheme is designed to allow participants to buy and sell units to each other to better reflect the true cost to the environment and encourage behavioural change.

In part due to the political pressure to adopt ETS, agriculture leaders made a proposal to the government in June 2022, agreeing to impose a price on agricultural greenhouse gas emissions. The government intends to use the funds raised from the revenues of ETS to contribute to the NZ$2.9bn fund established under the Emission Reduction Plan to support climate initiatives. The proposal by the agriculture leaders underscores the Minister's comments that without private sector financial contributions, the government cannot tackle climate change, meet targets, or achieve net-zero alone.

[1] Our World in Data, 2020.

[2] Countries such as Germany, Korea, US, and pilot schemes in China are currently operating ETS schemes.

Chart 1: New Zealand: Greenhouse gas emission by sector



Source: Our World in Data, data as of 2018.

CO_2 eq or the carbon dioxide equivalent is a metric measure used to compare the emissions from various greenhouse gases on the basis of their global warming potential (GWP), by converting amounts of other gases to the equivalent carbon dioxide with the same global warming potential.

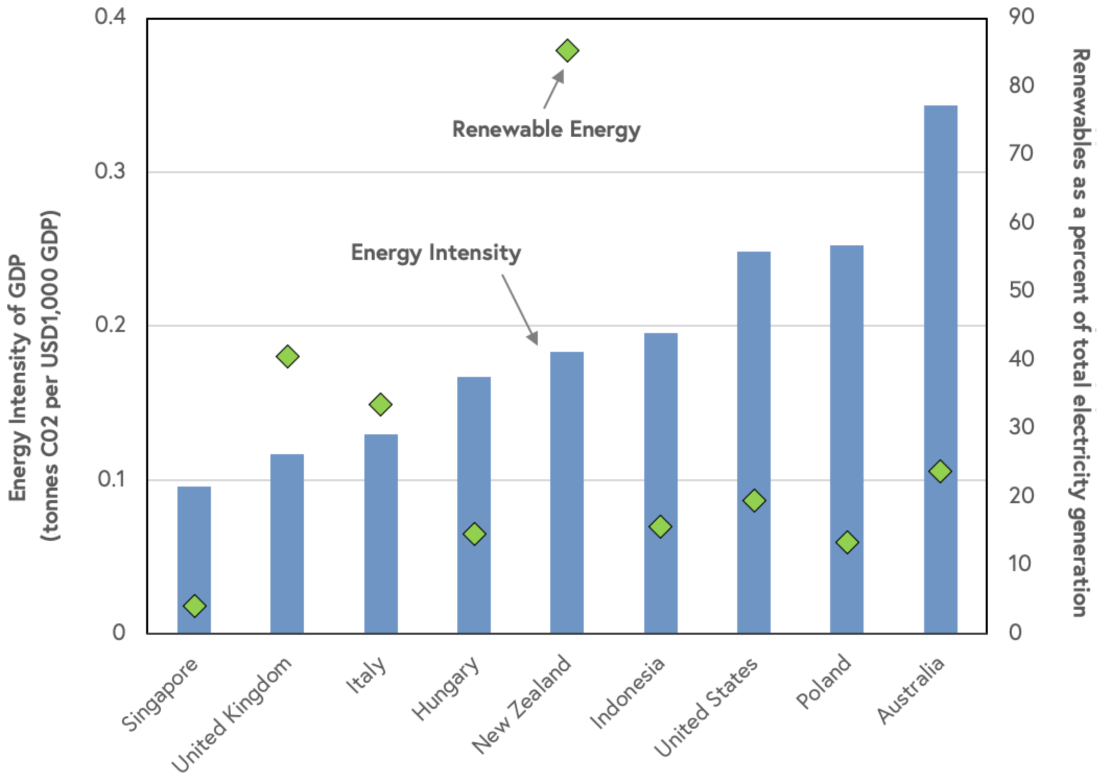
Australia

After almost a decade of conservative government, Australia's federal elections in May ushered in a new majority Labor government. We highlight some of the key policy pledges and promises we can expect in terms of ESG following the new leadership and share our discussions we had in March this year with the then shadow Treasurer now Treasurer, of Australia on these policies.

A key centrepiece of the new Prime Minister Anthony Albanese's election campaign was its environmental policy, promising to shift Australia's energy policy, address its carbon footprint and reduce its impact on global climate change. Australia's per capita CO_2 emissions are among the highest in the world[3] and, as Chart 2 shows, the country measures poorly in terms of energy intensity. Australia produces more than double the amount of carbon for a given level of GDP compared to countries like the UK or Italy. In terms of electricity generation, almost a quarter is generated from renewable sources, but this also compares poorly to developed market peers. Consistent with the new governments election pledges and commitment to addressing climate change, the new Prime Minister has formally pledged to reduce Australia's greenhouse gas emissions by 43% below 2005 levels by 2030. This is a substantial improvement on the 26-28% target of the previous government and is now more in line with targets set by other advanced countries such as the USA and Canada.

[3] Source: World Bank, as of Dec 2018.

Chart 2: Energy Intensity of GDP and Percentage Renewable



Source: International Energy Agency and Colchester Global Investors. Data as at end 2020.
The renewables balance ignores energy sourced from nuclear generated power.

While relatively ambitious, the new target is consistent with a 2°C increase in temperature rather than the internationally agreed 1.5°C Paris Agreement goal. Accordingly, Australia remains a laggard on this front. Accordingly, we expect pressure from the Green Party, after they secured four seats in the elections, as well as from the Independents to increase the reduction targets. The emergence of a noteworthy alliance of the so called "Teal Independents", mostly women, displacing many major party incumbents, suggests a greater appreciation of the climate issues Australia faces and the need for greater diversity in the make-up of its elected representatives.

Our engagement with the Shadow Treasurer allowed him to brief us on the Labor Party's pre-election plan, relating to the 'Powering the Regions' Policy. Parts of this aim is to fast track the use of hydrogen fuel, which was started in 2018, and large-scale battery storage capacity harnessed from solar and wind energy to add to the electricity network and increase Australia's level of renewable electricity generation. Now in government, these projects will be part funded by the recent announcement of the A$15 bn National Reconstruction Fund.

On social issues, particularly on the "care-economies" of childcare and old aged care, the Shadow Treasurer noted how they would deal with labour shortages in the sector. He believes this will require a review of the vocational training offering in Australia, to train and educate students or retrain existing labour force participants to match the areas where Australia is relying on immigration to fill the gaps. We note the Labor Party's campaign pledges of a A$2.5bn Aged Care package, A$1bn over four years for primary care as well as reducing the cost of prescription drugs. There is also an expectation that they will increase childcare subsidies to boost female workforce participation. All these policies promote greater inclusion and diversity in the workforce as well as addressing potential labour shortages in certain sectors.

On governance, one of the prominent policies in the election campaign was to introduce an independent national anti-corruption commission by the end of 2022. Corruption in the federal government has been growing in recent years, from the non-disclosure of conflicts of interest to hidden sources of donations to political parties. Increasing cases of corruption have been captured in the measure of the Corruption Perception Index (CPI)[4] which has seen Australia's latest score, in 2021, fall 4 points to 73 over the past four years. Australia is still ranked as one of the least corrupt nations in the world, well above global averages at 18th, but ranked slightly behind neighbouring New Zealand, Hong Kong or Singapore in the Asia Pacific region. While we are hopeful that the Labor government will deliver on its election promise and establish a new commission, we are mindful that the prior conservative government had also promised to establish such an institution. For now, Australia remains a country without an independent national anti-corruption regulator. Given the importance of the rule of law and governance in underpinning successful, vibrant, and inclusive economies around the globe we will continue to monitor these developments.

[4] The Corruption Perception Index reported by Transparency International ranks 180 countries by their perceived levels of public sector corruption, according to experts and business. A maximum score of 100 represents the least perception to corruption.

Emerging Markets Strategy Engagements

Poland

Between 2010 and 2019 Poland experienced strong economic growth. Real GDP growth averaged 3.7%, significantly higher than the average for the European Union (EU) of 1.3%[5]. Poland's economic growth also drove energy demand over this period, with the largest increase occurring in the Transportation and Industry sector. Poland is the tenth largest coal producer in the world and the second largest in the EU after Germany. Poland's sources of energy, over the past decade to 2020, showed that fossil fuel on average accounted for around 90% of all energy generation with coal the largest share at 50%, followed by oil at 26%, and natural gas at 15%[6]. In comparison, fossil fuel use across the EU averaged just over 70%, due to a lower contribution from coal. As Poland's economy recovered from the COVID-19 pandemic in 2021 this was accompanied by a resumption in energy demand, with coal playing a central role.

Poland recognises that it needs to transform its energy system and, in February of this year, formally adopted the national Energy Policy for Poland 2040 (EPP2040) to supplement the National Energy and Climate Plan 2021 -2030 (NECP)[7]. The EPP2040 policy focused on energy transition through the expansion of renewable energy, such as wind and solar, and the introduction of nuclear energy. It has not set a date for carbon neutrality, however, and is unlikely to commit to the EU's "Fit for 55" initiative which requires emissions to be cut by at least 55% by 2030. In our recent country visit, representatives from Poland's Ministry of Finance confirmed that this would be very difficult to meet. They further explained that they will look to nuclear power over the next 10 years. Notwithstanding these initiatives, we note that fossil fuel subsidies have also continued, (albeit recognising that they are aimed at mainly protecting employment in the coal industry). Furthermore, the government does not appear to have made any commitment to phase these subsidies out, nor will a carbon tax be forthcoming according to The Ministry.

Poland has also emphasised the need for energy security to ensure an affordable supply of energy and promote growth. It also sees a role for natural gas as it transitions away from coal. As much as 55% of Poland's natural gas was sourced from Russia, but in April this year, Russia suspended supplies of gas to Poland. This followed a warning from Russia's President Vladimir Putin that "unfriendly countries" who do not pay Russian gas in roubles could have flows cut off. Fortunately, Poland has been actively reducing gas imports from Russia over the past decade, developing infrastructure to diversify supplies from EU countries and Norway as well as obtaining Liquified Natural Gas (LNG) from the US - leaving it well positioned to mitigate supply disruptions. Unfortunately, the higher cost of these alternative supplies will likely add pressure to the elevated level of inflation which reached 13.9% in May.

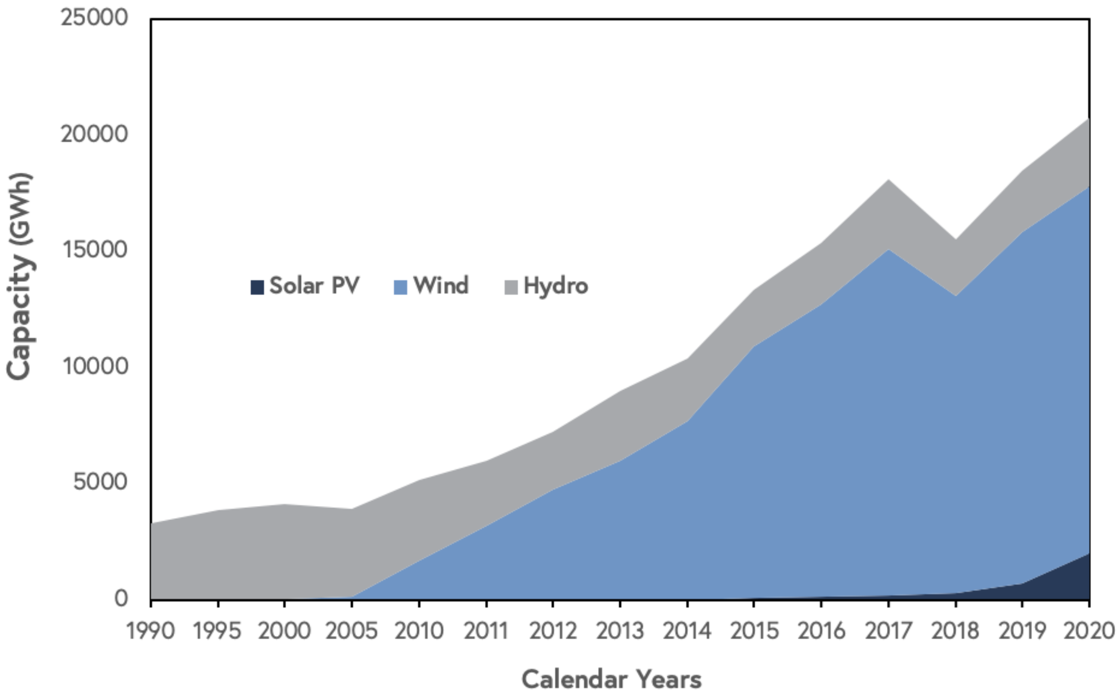
[5] Figures from Bloomberg and Eurostat.

[6] International Energy Agency (IEA) 2020.

[7] EU member states are required to meet the EU's energy and climate targets for 2030 under NECP.

In our discussions with the Head of EU representation in Poland for the European Commission about Poland's apparent resistance to the Fit for 55 initiative, they were upbeat about the potential for change. Specifically, they believed that the Russia-Ukraine conflict would accelerate the process of diversifying away from Russia and into renewables, and that the €8.8bn of EU funding from the Recovery and Resilient Facility[8] that was allocated to Poland for "green projects" would accelerate that process. The Polish Debt Management Office also indicated to us that it had no capacity to issue green bonds, confirming that for now green funding would need to come via EU funds. While Poland has improved the security and sustainability of its energy system, we believe that more needs to be done to decarbonise. Nonetheless, the tripling of renewables (see Chart 3) for electricity generation over the past decade, or so, is encouraging and the plan to build its first nuclear reactor by 2033 should accelerate its clean energy transition.

Chart 3: Poland Renewable Electricity Generation by Source, 1990-2020



Source: International Energy Agency

Fuel and energy prices are impacting inflation globally, but external factors are only part of the reason why Poland's inflation rate, one of the highest in the EU[9], has risen sharply. Poland's inflation has been compounded by its loose fiscal and monetary policy mix while the economy grew strongly in recent years, as well as a shortage of labour adding pressure to wages. One factor that may have contributed to labour shortages in Poland stems from the launch of the government's programme Family 500+ in 2016, to boost birth rates and reduce child poverty by improving living conditions of large families. Under the programme, parents can receive a tax-free benefit of 500 Polish Zloty (approx. €110) per month for the second, and any consecutive, children until they reach the age of 18. These payments have not been adjusted for inflation. The EU Commission estimates that the rates of extreme poverty amongst children would decrease by 76%, from 11.9% to 2.8%[10].

[8] The Recovery and Resilience Facility – This facility is an EU initiative to mitigate the economic and social impact of the coronavirus pandemic and support European economies in the green and digital transition.

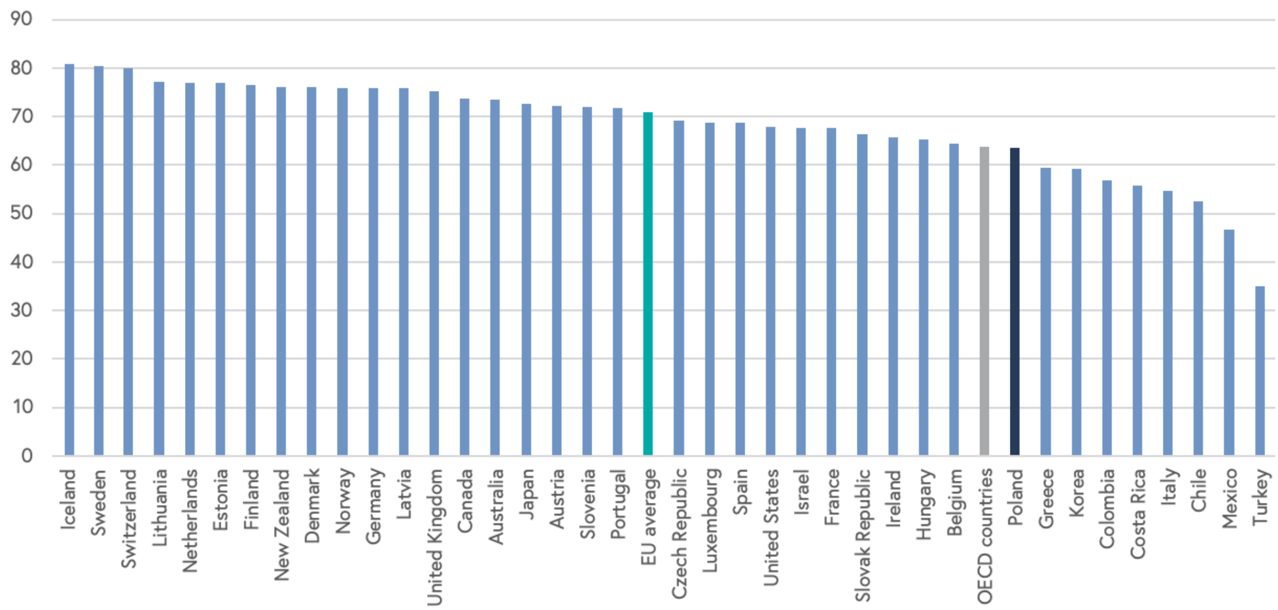
[9] EU inflation was at 7.4% at the end May 2022.

[10] EU Commission estimates in 2018.

In our recent 2022 engagement with the Ministry of Finance about the efficacy of the programme, they indicated that it is likely to be in place for the foreseeable future to protect families. Furthermore, they noted the objectives had also shifted partially to "protect" families against the rising cost of living.

Whilst the social aims of the programme are positive, it inadvertently appears to be negatively impacting on the supply of labour in Poland. One of the major concerns of the Family 500+ programme is that the additional non-work income may be having an adverse effect on the existing tight labour market. Workers with low wages may have lower incentives to be active, and women in particular may be encouraged to stay home and take care of children. This affect can be seen in Chart 4. While the female labour participation rate has increased and is similar to the OECD average Poland still lags the EU on average (see the green bar). Although the Ministry of Finance did emphasise that the percentage gap with that of the OECD has reduced in recent years, it still remains below a number of its neighbours. Studies[11] suggest that a low female participation rate can translate into poor levels of productivity, restrict GDP growth, and slow the reduction of gender gaps. We suggested to the Ministry of Finance that increasing the labour force participation of women may lessen the decreasing labour supply driven by demographic changes, and may help with the problems arising in the future from Poland's comparatively low retirement age.

Chart 4: OECD Female Labour Participation Rate 2020



Source: OECD as of 2020

[11] CEPR (Centre for Economic Policy and Research), 2021.

Malaysia

The quality of governance, as indicated by factors such as government effectiveness, credibility of institutions, the rule of law and control of corruption, has direct bearing on the government's ability and willingness to repay its financial obligations. Strong governance also promotes stronger economic and social outcomes. The corollary to good governance is fiscal transparency which helps to foster better overall economic governance by providing legislatures, markets and citizens with the information they need to hold governments accountable.

As such we focus on whether government budgets meet the needs of society. In considering the budget process for Malaysia we worked with the Emerging Markets Investors Alliance (EMIA)[12] to engage with the government to encourage best practices. The framework is guided by the work of the International Budget Partnership which published the Open Budget Survey for Malaysia, the most recent in 2021. It measures (i) Transparency - public access to information on how the central government raises and spends public resources, (ii) Public Participation – the formal opportunities offered to the public for meaningful participation in the different stages of the budget process, and (iii) Budget Oversight - the role that legislatures and supreme audit institutions (SAIs) play in the budget process and the extent to which they provide oversight.

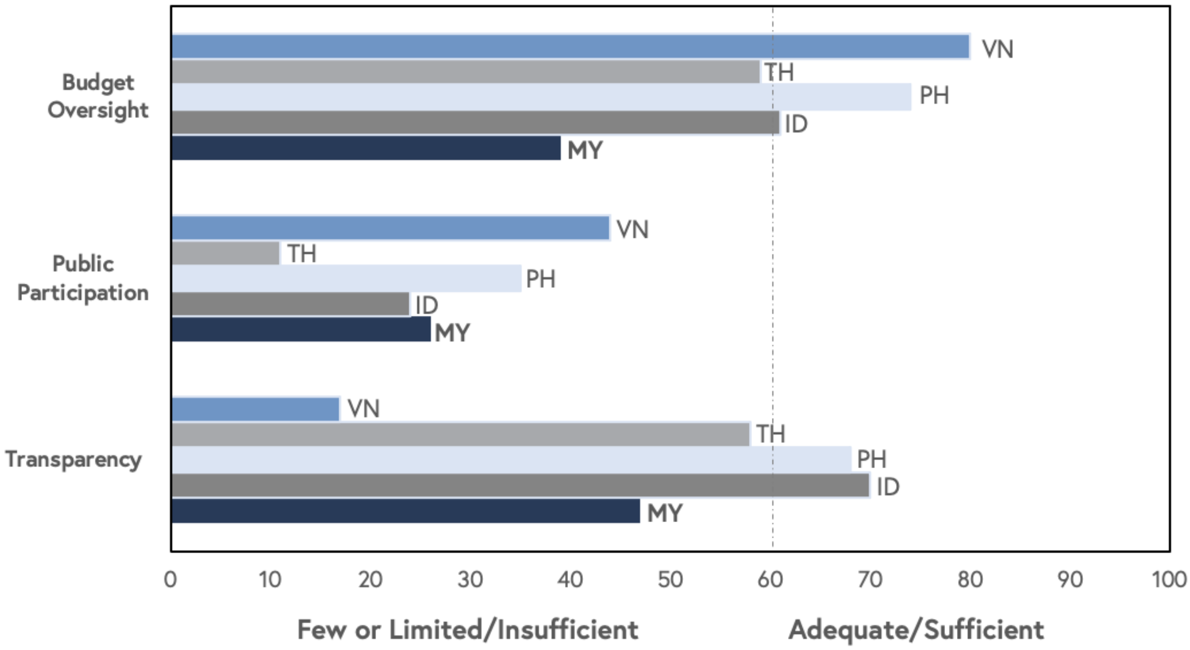
Unfortunately, Malaysia scores poorly on these metrics. There is insufficient access to timely and comprehensive budget information, few opportunities to offer public debate, and weak oversight during the budget process, all scoring below 61[13] (See Chart 5). Although Malaysia has made significant improvements with respect to transparency over time (See Chart 6), it could benefit by taking further steps to bring the score more in line with regional peers. Malaysia has also made significant efforts over time in providing public budget documents such as the recently published 2022 prebudget statement - historically a missing document. To foster more transparency, we specifically asked the Ministry of Finance about contingent liabilities such as projects under Public and Private Partnerships (PPP), as well as future liabilities including infrastructure funding related to the ambitious Energy Transition Plan 2021 – 2040.

Working with EMIA, we hope to share the engagements we have with the Malaysian government. We believe that sovereign engagement is a continuous process in assessing ESG risk, mutually benefiting the sovereign issuer and investors. Enhanced and clear policies can improve a country's business and social environment, which in turn reduces country investment risk, funding costs, supports economic growth and should ensure more sustainable debt paths.

[12] Emerging Markets Investors Alliance (EMIA) is a non-profit organisation that enables institutional emerging investors to support good governance, promote sustainable development, and improve investment performance in the governments and companies in which they invest.

[13] A country's budget transparency score, reflected on the Open Budget Index, assesses the public's access to timely and comprehensive budget information. A transparency score of 61 (out of 100) or higher indicates a country is publishing sufficient information to support informed public debate.

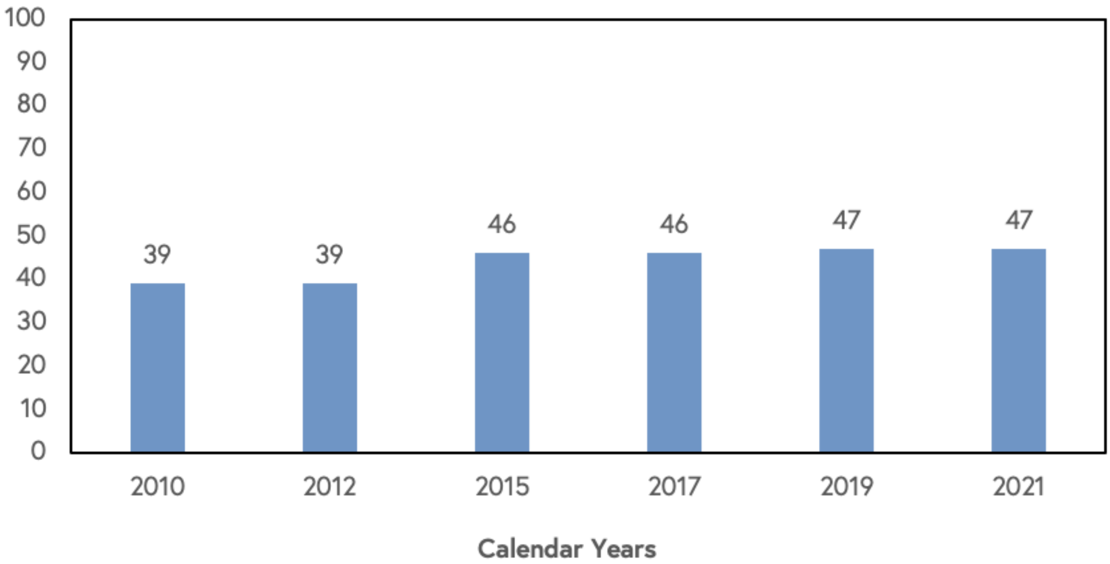
Chart 5: Malaysia vs Peers - Open Budget Survey 2021



Source: International Budget Partnership (IBP)

VN = Vietnam, TH = Thailand, PH = Philippines, ID = Indonesia, MY = Malaysia

Chart 6: Malaysia Transparency Score: 2010 - 2021



Source: International Budget Partnership (IBP)

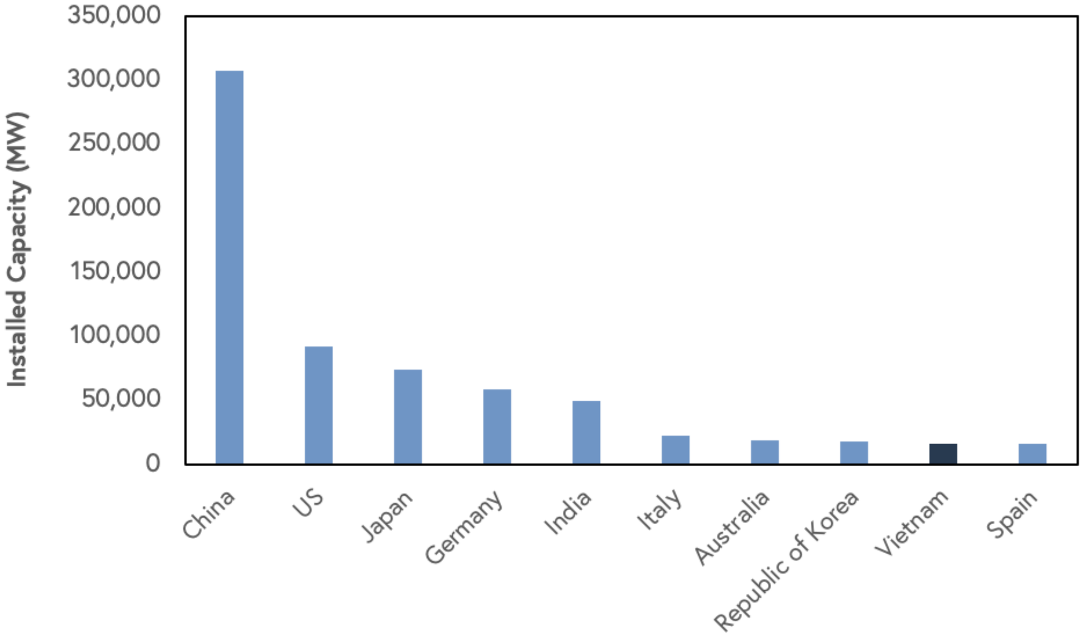
Frontier Markets Strategy Engagements

Vietnam

Vietnam is one of the most vulnerable countries exposed to climate change; ranked 99th out of 180 countries according to the ND-Gain Index[14]. Around 70% of the country's population live in low-lying coastline and river deltas and are exposed to rising sea levels and frequency of floods caused by climate change. At COP26, Vietnam's Prime Minister Pham Minh Chinh unexpectedly announced his country's commitment to net zero by 2050 and to phase out all coal power generation by 2040.

Vietnam's economy has grown on average between 6-7% per annum over the past decade and with that has been an increase in energy demand. Aiming to become a high-income country by 2045, Vietnam will need to continue delivering growth whilst ensuring a sustainable energy transition with renewables at the core of this process. The country has already made significant progress to switch from coal to solar, with wind power expected to be driving the next phase of renewable transition. The share of electricity generated by solar in Vietnam increased significantly from nothing five years ago to nearly 10%[15] in 2021, ranking the country in the top 10 with the highest installed solar energy capacity (see Chart 7).

Chart 7: Top 10 Ranked Countries: Solar Installed Capacity: 2021



Source: International Renewable Agency

[14] ND-Gain Index is the Notre Dame Index which summarises a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience.

[15] Our World in Data 2021.

The key proposals of Vietnam's clean energy transition path are detailed in the Power Development Plan 8 (PDP 8) targeting a significant increase in the share of renewables. However, at the time of this report, the proposals remain in draft form even after undergoing several revisions. As global bond investors, we are also keen to understand the required capital investments under the transition plan. The PDP 8 show that between 2021 and 2030, approximately US$128 bn of capital would be needed - equating to 4.7% of GDP per annum. This is expected to be a similar amount in the subsequent period from 2031 to 2045. To date, most of the investments in renewable generation have come from domestic and regional sources, but part of the reason for the delay in finalising the plan stem from the issue of how policymakers will raise and finance future investments.

In our recent engagement with the Ministry of Industry and Trade (MoIT), we asked about the fiscal implications and challenges in implementing PDP 8. Our understanding is that the Vietnamese government does not have the financial capacity to meet those investment needs and the success of the plan will be contingent on unlocking international support. We are encouraged by organisations such as the International Finance Corporation (IFC) and the Asian Development Bank (ADB) who have already provided support in terms of green loans. For international energy developers attracted to Vietnam's energy growth market, cumbersome procedures for permits and uncertainties over guaranteed prices for projects have been regulatory obstacles. These are now being addressed with the National Assembly Law No 3 allowing private companies to invest in and operate electricity lines and the announcement this year of a two-year pilot direct Power Purchasing Agreement (PPA) offering more transparent tariff schemes. More recently, we attended the UK-Vietnam Business Forum to hear business leaders and government officials discuss future trading opportunities following the signing of the UK-Vietnam Free Trade Agreement (UKVFTA) last year. We voiced our concerns in these forums. In addition, in discussions around clean energy transition, the UK government emphasised their priority to support Vietnam, in building legal structure, technology and experience to develop renewable energy. Moreover, the UK recognises that developed countries historically have been the largest contributor to carbon emissions and offered to work together to finance Vietnam's energy transition.

Vietnam's commitment to switch from coal to solar and wind should lay the groundwork for regulatory reform, policy incentives and attract much greater international financing. We look forward to seeing the latest iteration of PDP 8, which should continue to show Vietnam's strong ambition to lead in the transition to clean energy within South-East Asia.

Pakistan

The uneven and procyclical economic policies pursued by the Pakistan government to boost growth in the years to 2019 resulted in high inflation, high indebtedness, a weak external position and ultimately the country turning to the International Monetary Fund (IMF) for a bailout in May 2019. The financial support programme under the Extended Fund Facility (EFF) set by the IMF, conditioned the government to make fiscal adjustments, reduce public debt, install a flexible exchange rate to restore competitiveness and rebuild official reserves. While Pakistan agreed, the IMF suspended the loan in 2020 after the country failed to meet those conditions. The programme was revived in 2021 after the government, lead at the time by Prime Minister Imran Khan, agreed tougher conditions such as raising oil prices and electricity tariffs to support tax revenues. However, as Pakistan recovered from the COVID pandemic, like many countries, it was faced with the rising cost of living due to high energy and food prices and public anger meant those measures were rolled back. Prime Minister Khan was ousted in early April this year after a vote of no confidence.

The new Prime Minister Shehbaz Sharif has continued to seek an extension of the IMF programme. As such, we attended a discussion with the Ministry of Finance in April seeking clarification on the commitment to reform the fiscal budget. Of particular focus was the capacity to remove the unfunded fuel subsidy given the negative impact on the poorest section of society, and an exploration of potential areas to raise additional tax revenues. These were amongst the key issues highlighted by the IMF to stabilise the fiscal deficit and for the resumption of financial support programme. We were told by the Minister of Finance that this would be confirmed in the upcoming budget and acknowledged that the IMF's strict conditions would be considered in the process, with fuel subsidies likely to be phased out gradually. In June, Pakistan unveiled a budget for the 2022-2023 focusing on fiscal consolidation. The budget included the ending of fuel subsidies, a series of one-time taxes levied across major sectors of the economy, and a proposal to introduce a wealth tax. In all, Pakistan is hoping to convince the IMF to extend financial support to put its economy on a path of sustainable and balanced growth.

Industry Collaboration

At Colchester we continue to share our work, experience, and expertise with industry as to how we integrate ESG factors into sovereign bond analysis. On this front, the first half of this year saw our work and collaboration with several industry partners, and we detail some of the engagements as follows.

As an Advisory Committee member of ASCOR (Assessing Sovereign Climate-related Opportunities), Colchester has contributed to the discussions of the development of the overall framework and the tools for investors to understand sovereign exposure to climate risk and government plans to transition to a low-carbon economy. Much progress has been made to identify the specific factors and indicators required to make this assessment. For example, the level of a country's commitment to net zero, governments' actions and policies to manage and adapt to transition and physical risk whilst accounting for the social impact, and the financial capacity of a sovereign in mitigating climate change risk. Colchester will continue offering our insights, our thought leadership and hope to further develop understanding in areas such as climate change scenario analysis.

Colchester is a member of the IPDD (Investors' Policy Dialogue on Deforestation), a collaborative investor led initiative to engage with public agencies and industry association on the issue of deforestation. Evidence of escalating rates of deforestation in countries such as Brazil resulted in the formation of the IPDD Brazil initiative. At Colchester, we want to continue to invest in Brazil and contribute to its economic development and protection of the environment. Therefore Colchester, along with other investors, are urging the government of Brazil to demonstrate clear commitment to eliminating deforestation and protecting the rights of indigenous peoples, and via the IPDD initiative, hope to see five outcomes from the Brazilian government:

1. Significant reduction in deforestation rates i.e. showing credible efforts to comply with the commitment set down in Brazil's Climate Law, Article 19.
2. Enforcement of Brazil's Forest Code.
3. Reinforcement of Brazil's agencies tasked with implementing environmental and human rights legislation, and avoidance of any legislative developments that may negatively impact forest protection.
4. Prevention of fires in or near forest areas, in order to avoid a repetition of fires like those that occurred in 2019.
5. Public access to data on deforestation, forest cover, tenure and traceability of commodity supply chains.

While we recognise the importance of protecting the environment, we are also mindful that the economic crises caused by the pandemic and this year's election may impact the pace and scale of progress that can be reasonably expected.

Risk Disclosures

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