



Colchester®
GLOBAL INVESTORS

Colchester ESG Policy

December 2021

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Responsible Investment

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Introduction

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

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

Colchester's investment programs invest primarily in sovereign bond markets that offer attractive real yields adjusted for the strength of their balance sheet and in undervalued real exchange rates adjusted by the strength of their external financial balance sheet. Colchester does not rely upon external credit rating assessments as we perform our own research. Our portfolios are highly transparent, liquid, unlevered and do not utilise securitization vehicles, credit or other corporate bonds. All portfolios managed by Colchester follow a similar investment management strategy based on the analysis of inflation, real interest rates and real exchange rates, supplemented by an assessment of sovereign financial balances - fiscal, external, monetary and ESG factors.

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

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

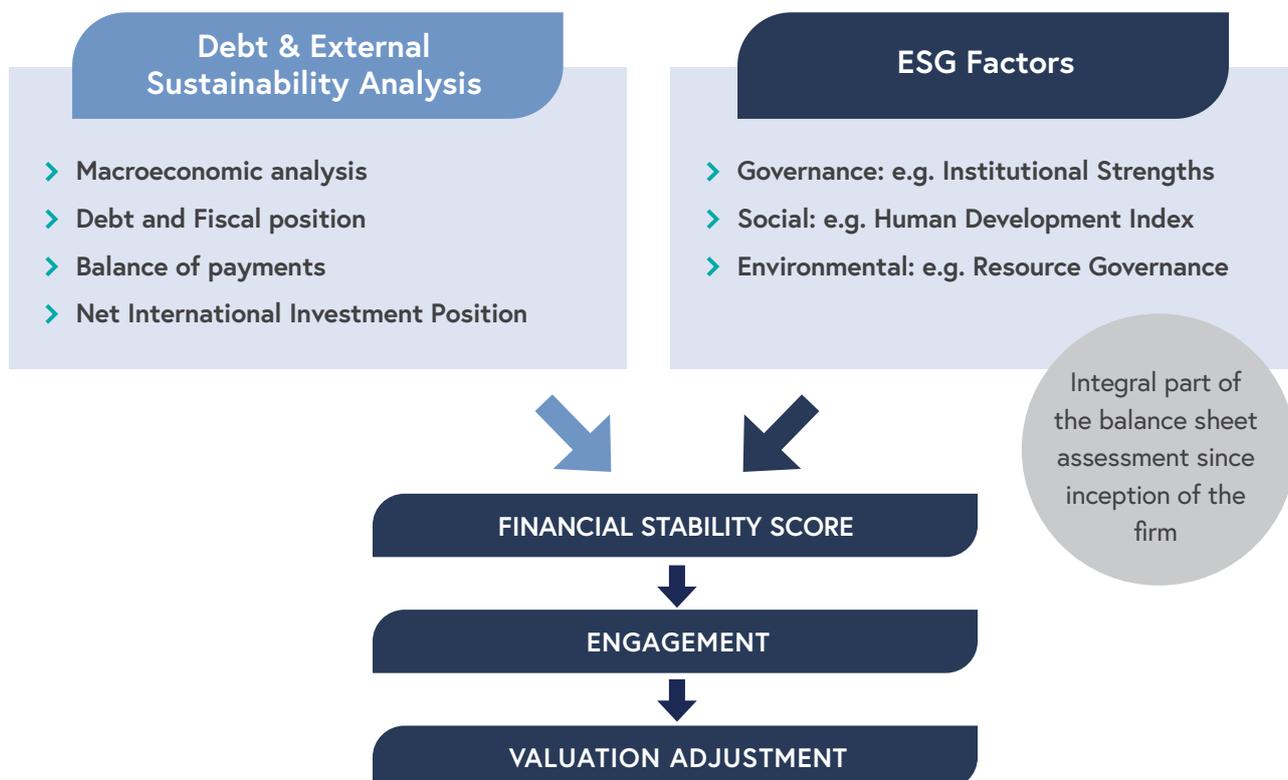
While ESG considerations are inherent in our financial stability analysis, they also inform our assessment of these, and other risks, that impact on the construction of our portfolios. ESG factors are not as easily identified, measured or acted upon for sovereign debt as they are for equity or corporate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

Investment Process

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

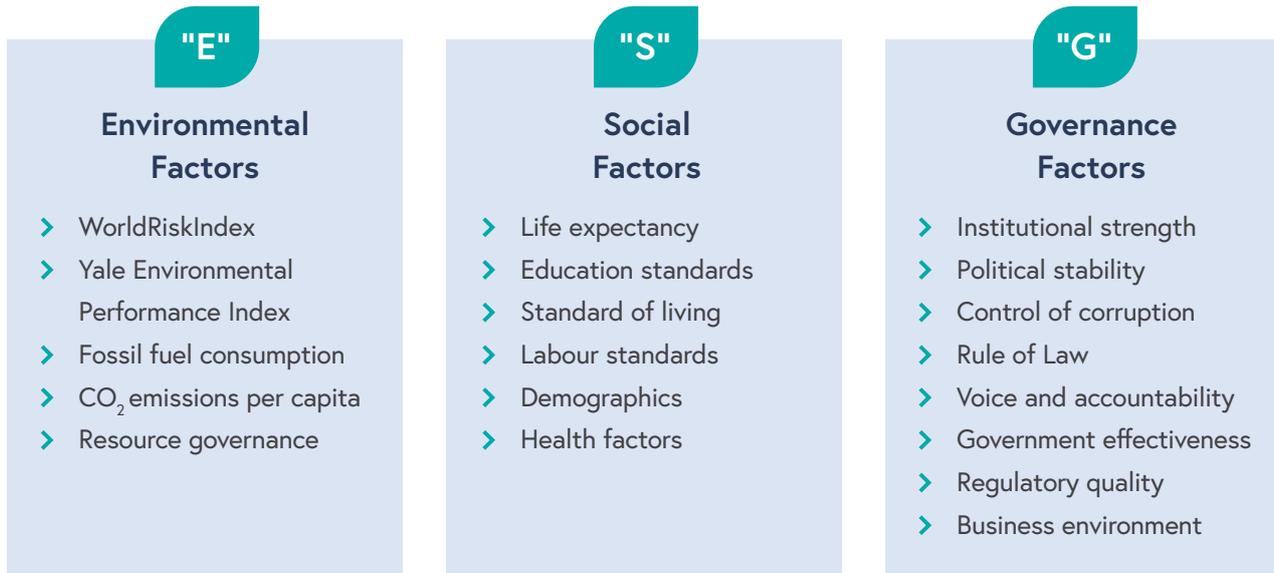
ESG factors are integrated holistically into our valuation framework. Countries are assigned a proprietary Financial Stability Score (FSS) that combines an assessment of their overall balance sheet strength and ESG factors (Figure 1). Bond and currency scores range from +4 to -4 and are determined through an extensive assessment of the macro-economic environment, policy framework, ESG standards and other country specific factors. The data used in the financial health assessment comes from government statistical offices, central banks and international institutions such as the OECD, IMF and BIS. Similarly, ESG data comes from standardised internationally recognised organisations such as the United Nations, the World Bank, and the Natural Resource Governance Institute. The FSS therefore encompasses a diverse range of quantitative and qualitative assessment factors for a country.

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



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

Figure 2: Diverse Range of Quantitative and Qualitive ESG factors



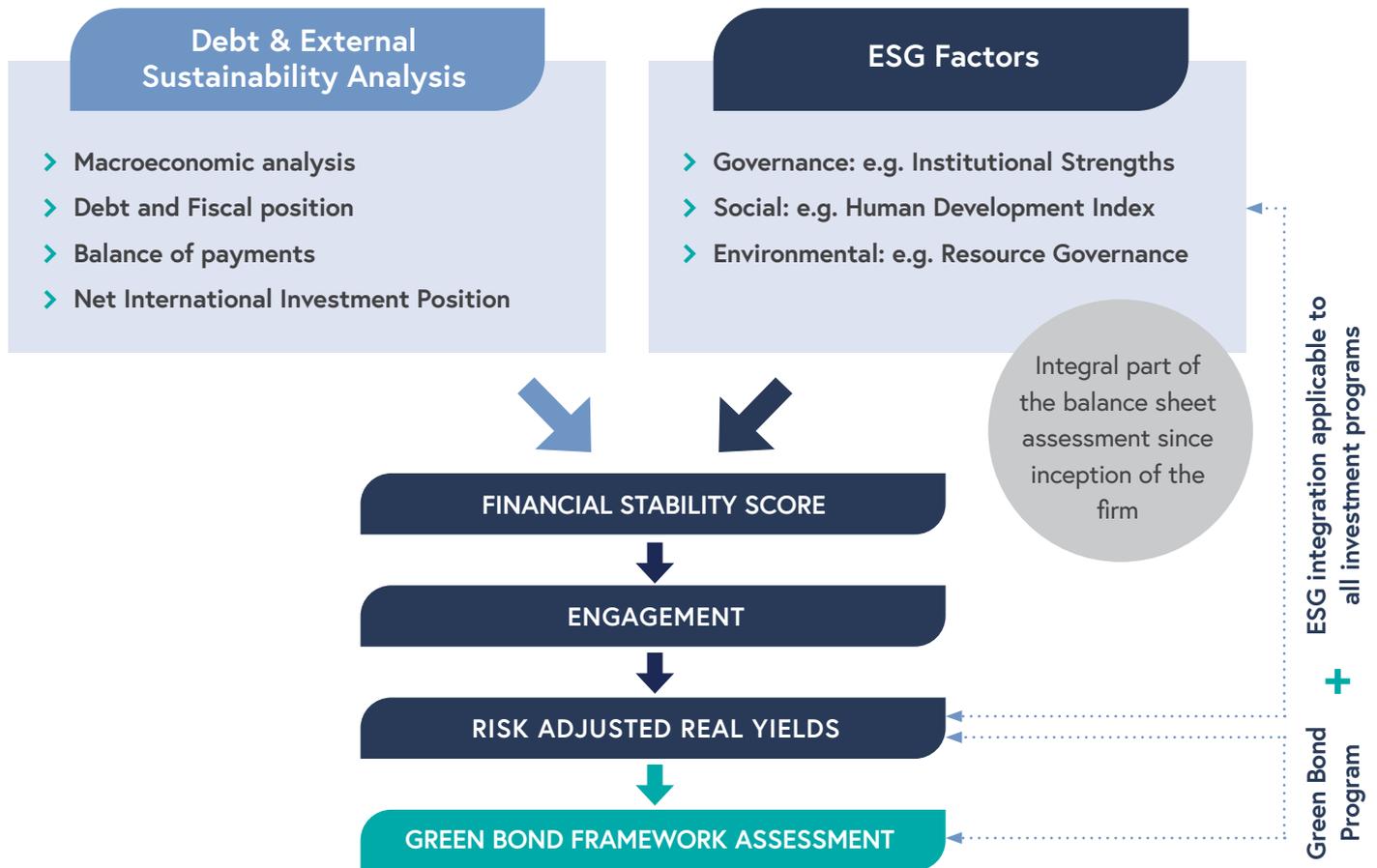
Colchester's Green Bond Framework

Our Global Green Bond Program uses the same valuation framework, portfolio construction and risk management techniques as our other investment programs. 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 Principles¹ or any other national 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."
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.

¹Green-Bond-Principles-June-2021-140621.pdf (icmagroup.org)

Figure 3: Colchester's Green Bond Framework



SFDR, Sustainability Risk and Colchester's Sustainable Funds

The EU Sustainable Finance Disclosure Regulation (SFDR) came into force on 10 March 2021 and imposes mandatory ESG disclosure obligations on financial market participants. "Sustainability risks" means environmental, social or governance events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of the investment. Sustainability risk is applied in conjunction with Colchester's ESG integration approach and applies to all of Colchester's funds and mandates. In addition, Colchester further considers the following pre-defined indicators in relation to Article 8 SFDR products i.e. funds which promote environmental and/or social characteristics:

- 1) International sanctions imposed by the United Nations, the E.U. and the U.S;
- 2) the EU list of non-cooperative jurisdictions for tax purposes;
- 3) the Freedom House's Freedom of the World (FWI) Index; and
- 4) ratified the Paris Agreement.

United Nations Principles for Responsible Investment

Colchester is a signatory to the UNPRI, implements and adopts the six principles of responsible investment. We see no conflict of these principles with our fiduciary duties and responsibilities to our clients. Colchester is cognisant and supportive of these principles. In summary, we put into action each principle as follows:

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

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

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

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

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

During the Investment Team's country research trips, they will seek more ESG-related information, and discuss ESG-related issues further, where possible.

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

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

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

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

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

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

Philosophy

Colchester believes that Responsible Investment supports our medium-term value-driven investment process. We believe that countries with higher governance standards, healthier and better educated workforces should, on average, generate better economic and financial outcomes. Countries with better ESG standards are therefore associated with stronger balance sheets. Colchester never makes investment decisions based solely upon ESG factors, but we do believe that these factors are an important determinant of identifying sustainable value, and as such, is in the best interests of our clients.

Governance

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