

Colchester ESG Policy

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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 factors (ESG). Responsible investing is, and has been since the inception of the company in 1999, integral to the investment process employed by Colchester.

Colchester which has the primary purpose of delivering medium to long term value for its clients has always believed that a country with good standards of governance, sound environmental and social policies will have a stable debt path which is conducive to a medium-term investment strategy.

Colchester's investment programs invest primarily in high quality sovereign bond markets that offer attractive real yields from countries with sound finances and in undervalued real exchange rates with strong external financial balance sheet factors. Colchester does not rely upon external credit rating assessments as we perform our own research. However, the investment opportunity set does consist primarily of markets rated BBB or better. We include in our investable universe smaller countries which allows a diversified high-quality sovereign and separately a currency portfolio to be constructed. Colchester uses a highly transparent and simple investment process which does not utilize securitization vehicles, credit or other corporate bonds.

All portfolios managed by Colchester follow a similar investment management strategy based on the analysis of inflation, real interest rates and real exchange rates, supplemented by an assessment of sovereign financial balances - fiscal, external, monetary and ESG factors. With this consistent process, separate policies are not required for each fund or portfolio managed by Colchester.

Colchester invests on a global basis in both developed and developing, or 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 little, or potentially biased, government supervision and regulation;
4. Financial, economic and political risks, including capital controls; and
5. Global market turmoil.

As is evidenced by this list Environmental, Social and Governance (ESG) factors which are the key pillars of a Responsible Investment Strategy are inherent to the Colchester investment philosophy and process. Without consideration of ESG we would not understand all the risks to our investment process and might not be acting in our clients' best interests.

Whilst ESG factors are not as easily identified, measured or acted upon for sovereign debt as for equity or corporate debt they can still be incorporated into the investment process. We believe that a government with sound ESG policies will have a more stable debt and currency market and therefore a better risk/return profile compared to countries with poor ESG practices. The strength of governance is a key consideration in the determination of the Financial Stability Score which is integral to Colchester's investment decision making process.

Investment process

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

Where possible metrics are used for ESG factors which are incorporated into the investment process. These metrics, which vary from country to country, are a key component of the Financial Stability Score which is an integral part of the investment process. The Financial Stability Scores for each country are reviewed at each meeting of the Investment Management Committee and are an integral part of portfolio construction.

The score is produced both for the bonds issued by a country and for the currency. We do this 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 local governments, central banks and international institutions (OECD, IMF, BIS, etc...). Countries with strong financial balance sheets will receive a premium while weaker ones will be penalised.

The Financial Stability Score represents an assessment of a country's overall balance sheet and governance standards and includes where it is possible and practicable to do so environmental factors.

Following our assessment of real yield and real exchange valuations, the Financial Stability Score is applied prior to the portfolio construction process. Where we have two countries with equal real yields, the one with the higher Financial Stability Score will be favoured, as it is reasonable to assume that a country with higher standards on all or some factors would have a better return outcome.

The Financial Stability Score includes both quantitative and qualitative assessment factors for a country. Some example factors included within the score for ESG assessment are as follows:

Environmental Factors

- Environmental sustainability
- Resource Governance Index

Social Factors

- Life Expectancy
- Human Development Index

Governance Factors

- Government effectiveness
- Control of corruption
- Regulatory quality

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 from these principles to our fiduciary duties and responsibilities to our clients. Colchester recognizes that these principles support the investment process.

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

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

Colchester directly includes ESG into its investment process via the country research process and Financial Stability Score which forms part of 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 review meetings and with issuers when possible and appropriate to do so.

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

When performing country research reviews, we utilize where this is available information on ESG issues direct from the issuing government or other bodies. Through our use of these metrics in our research and where possible discussion of them with issuers we aim to influence and improve ESG metrics for sovereign debt.

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

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

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

Colchester believes in a process of continual improvement and review for its investment processes. Around the core of our inflation forecasts and currency analysis we continually review data and information on how a country is developing and changing. Discussing and considering which ESG metrics or issues can be included in the investment process is a key component of this.

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

Colchester explains to clients, prospective clients and their consultants how ESG factors are incorporated into and are supportive of our investment process. Lastly, in accordance with Principle 6, we will report annually on our approach to integrating ESG factors into our investment process.

Philosophy

As evidenced above Colchester believes that Responsible Investment supports a medium-term value driven investment process. We believe that sovereign debt shares the same underlying principle as a corporation in that a country (as with a company) that applies high standards in all areas of ESG, but particularly regarding governance, will be a high-quality issuer.

We will never make investment decisions based solely upon ESG factors but we do believe that these factors are an important determinant of identifying sustainable value which is in the interests of our clients.