



# Collaborative Sovereign Engagement on Climate Change

**PROGRESS REPORT 2025**





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“The Collaborative Sovereign Engagement on Climate Change continues to be valuable within Rest’s stewardship activities. It deepens our work with Australian state governments and financing bodies and helps to clarify their decarbonisation plans, challenges, and opportunities. The initiative enables us to support best practices within their policy-making while informing our thinking on the integration of climate risks and opportunities within the construction of our own Australian government debt portfolio.”

**Rachel O’Connor**

*Senior Portfolio Manager, Fixed Income and Debt, Rest*

# Foreword

**I am pleased to present the second progress report for the PRI Collaborative Sovereign Engagement on Climate Change. FY2024-25 was a pivotal year for the initiative as the Australian pilot evolved into a multi-market programme.**

This initiative is rooted in the fiduciary duty and portfolio needs of our signatories and embraces principles of system-level stewardship. The sustained dialogue, the focus on macro risks and opportunities and the grounding in sovereign bond holdings make this engagement a distinct practice from other efforts to inform policy development, such as advocacy and lobbying efforts.

Sovereign engagement is critical for investors to better understand how governments are progressing in terms of their Paris Agreement commitments and how they manage climate risks. Investors also understand that effective climate policy can reduce broader portfolio risks across all asset classes, accelerate investee company transitions and create more opportunities for capital deployment that is required to meet the world's climate goals.

A growing body of guidance has established the portfolio rationale to engage with policy makers on climate-related risks. This includes the Net Zero Asset Owner Alliance's [Future of Investor Engagement](#), the PRI guide, [ESG Engagement for Sovereign Debt Investors](#), and the recent PRI briefing, [Institutional Investor Action on Climate Risk as the World Approaches the 1.5°C limit of the Paris Agreement](#).

After positive signatory feedback on the pilot, and an external review that found engagement had been a welcome and constructive contribution to the Australian market, we are now pursuing a steady expansion.

Through extensive signatory consultation, we have identified Canada and Japan as markets where there are immediate opportunities to establish positive, constructive dialogue and provide value to policy makers and signatories. These are regions where international investors are observing the emergence of climate-related policies and regulations seeking private capital support and where investors may be looking to increase exposure.

In time we hope that the initiative can also extend opportunities for investors to support sustained dialogue with emerging economies. We want to do this as part of our wider organisational focus on supporting greater responsible capital flows to these nations and highlighting the positive investment opportunities that can arise from investable Nationally Determined Contributions (NDCs) under the Paris Agreement and associated implementation plans.

I thank participating signatories for their work within the initiative to date, as well as representatives of sovereigns and sub-sovereigns who have approached the engagement in the spirit of the collaboration.

We look forward to working with signatories, sovereign representatives and our partners over the next year to enhance this critical dialogue.

**Tamsin Ballard**

Chief Investor Initiatives and Collaboration Officer  
Principles for Responsible Investment



# About the initiative

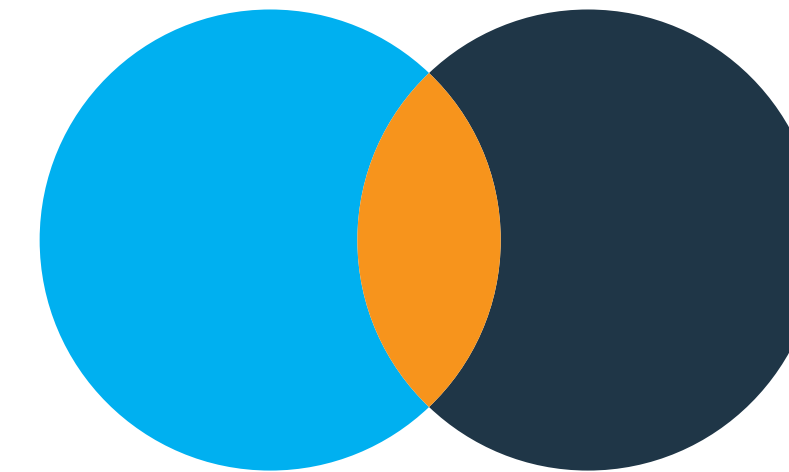
The Collaborative Sovereign Engagement on Climate Change is a PRI initiative that enables investors to support governments to act on climate change and in turn better manage portfolio risks and opportunities.

Through the initiative, 41 global investors are seeking to engage with sovereigns on [climate change](#) issues. Consistent with their [fiduciary duty](#), sovereign engagement can enable investors to better understand governments' progress on climate commitments and support the latter to identify policies and actions that mitigate investors' portfolio risks associated with worsening global heating. The engagement also helps to maximise portfolio opportunities that arise from the transition to a net-zero global economy.

These risks and opportunities include:

- the value of government bond investments;
- the continued competitiveness of national economies and investee companies; and
- system-level risks and opportunities through exposure to the global economy.

Through this type of dialogue PRI signatories are better able to protect and enhance the long-term value of their portfolios and refine how they can effectively engage with sovereigns. This initiative also helps to increase awareness of best practice in sovereign engagement among the broader investment industry.



**41**  
participating investors



**≈US\$17 trillion**  
in assets managed by  
participating investors



**30**  
engagement meetings  
in FY2024-25



**3**  
focus markets

# About this report

**This report elaborates on the engagement activities carried out from April 2024 until the end of March 2025 (FY2024-25), our work to establish additional market engagement programmes in Canada and Japan, and the initiative’s direction for the year ahead.**

This report is intended to update PRI signatories and other relevant stakeholders on the development and progress of the initiative and provide transparency about engagement activities. We also report on participating investor sentiment, programme challenges, and broader insights on collaborative sovereign engagement practice.

We intend to produce another report in FY2025-26.

## Transparency and disclosure principles

The report does not reflect the views of participating investors in the initiative or the PRI’s wider signatory base. Further information can be found in the disclaimer of this report.

Standards for transparency in reporting on sovereign engagement activity are still in their infancy. The PRI has therefore adopted standards from political engagement and lobbying codes, and has identified instances of industry best practice, to guide this reporting. The PRI views sovereign engagement as a markedly distinct practice from lobbying; the use of lobbying transparency codes as a proxy does not represent an equivalency in the activities.

In particular, for this report, the PRI has drawn from the disclosure and transparency standards as set out in the Organisation for Economic Cooperation and Development’s [Recommendation of the Council on Transparency and Integrity in Lobbying and Influence](#), Global Reporting Initiative’s [415: Public Policy Standard](#), and the Responsible Climate Lobbying’s [Global Standard on Responsible Corporate Climate Lobbying](#).

# FY2024-25 ENGAGEMENT ACTIVITIES - **Australia in focus**

**Participating investors have been engaging with Australian governments since 2022. In FY2024-25 this engagement deepened in many instances, with investors sharing more detailed perspectives on specific and relevant climate-related issues. The quality of meetings and the seniority of individuals represented also often increased.**

Across FY2024-25, participating investors held 25 engagement meetings with 30 different entities or representatives across the Australian Government and five Australian state governments. This was a smaller number than in FY2023-24, reflecting the more focused nature of the engagement after its introductory phase and a slowing of activity in some jurisdictions due to elections.

Participating investor engagements have focused on:

- investable NDCs to the Paris Agreement
- sovereign disclosure
- national gas development, supply and use policy
- state emissions targets and energy transition
- methane emissions mitigation
- labelled bond issuance and reporting

Investors also developed three issues papers to assist engagement with Australian policy makers on:

- investable NDCs
- sovereign disclosure
- green bond reporting

## **2024 engagement roadshow**

Participating investors conducted a second engagement roadshow in Australia as part of the FY2024-25 programme. Across three days in August and three cities, representatives of 11 participating investors attended in-person meetings with departments and elected representatives across the Federal Government and two state governments.

The predominant focus of the roadshow was the development of the next Australian NDC, including how investors incorporated NDC information into their portfolio decisions and how NDCs can be supported by other mechanisms to increase their investment signal to global capital markets. For the first time in the initiative, engagement extended to elected representatives and their advisers, including meetings with the Australian Treasurer, Climate Change and Energy Minister and the Office of the Opposition Climate Change and Energy Spokesperson.



**“Fidelity International believes effective stewardship combines bottom-up corporate, top-down thematic and system-wide engagements. The PRI collaborative engagement programme has allowed us to gain clarity on government climate change plans to help us manage climate risk and identify opportunities for our client portfolios, while also providing insights and views to help sovereigns better understand the needs of capital markets.”**

**Rebecca Ogg**  
*Sustainable Investing Analyst –  
Policy and Regulation,  
Fidelity International*

Some of the roadshow engagements were held in partnership with the Investor Group on Climate Change (and a small number of its members, who are also PRI signatories), which has been an official observer of the Australia Advisory Committee for the initiative since its inception.

## External review

For the second consecutive year, we commissioned an external review of the progress of the Australian engagement from independent consultancy firm Moribus Advisory. This review of the 2024 calendar year considered a range of quantifiable and qualitative measures of progress, alongside interviews with participants and other stakeholders. These measures track the quality and depth of engagement activity and market direction against engagement focus areas.

The review concluded that engagement has continued to reinforce a positive direction of travel in relation to climate policy throughout 2024 and has made an important contribution to supporting a more effective and orderly market transition.

While some challenges remain – such as a complex policy environment, variable access to certain government departments and differing levels of investor capacity – the review found that the programme continues to deliver value for participating investors and inform public policy.

The review highlighted feedback from participating investors and stakeholders regarding the programme’s growing credibility, strategic relevance and effectiveness. It concluded that 2024 engagements, at a minimum, helped inform national and state climate disclosures, green bond issuance and emissions reduction funding.

The review considered engagement progress and general market direction across three groups of indicators:

- market direction related to specific annual investor engagement priorities
- broader market direction on issues relevant to the headline focus of the initiative
- the activities being undertaken via the initiative by participants and/or the PRI.



On the first point, the review assessed progress across eight focus engagement areas identified by participants for 2024, finding that five had either been completed or seen significant progress, two had made limited progress and one had not been achieved.

Of the 44 more detailed indicators related to changes in market profile relevant to the overall initiative focus (but not necessarily the subject of engagement activity in 2024), 11 showed a positive direction, 28 remained steady and five showed a negative direction, when compared to 2023. Significant swings in these measures on a year-to-year basis are not expected as many represent system-level and whole-of-economy shifts that will take many years to materialise and are reliant on a multitude of inputs.

Of the 16 additional indicators that tracked engagement and initiative activities, three trended upwards, eight remained steady and five decreased compared to 2023 activity. The review noted that a decrease in activity does not necessarily indicate a negative result as only volume, not necessarily quality and depth of engagement activity, is captured.

We have decided not to publish the full details of these indicators in this progress report for the following reasons:

- the fledgling nature of the initiative and sovereign engagement means there is no standardised way to track engagement progress that has been fully reviewed by a group of technical experts and PRI signatories
- we do not wish to create a competing benchmark to existing public assessment frameworks for sovereign climate performance which are supported by PRI, in particular ASCOR
- the limited scope of focus markets under the initiative to date and a desire to maintain constructive dialogue

- the difficulty in fully ascribing positive market progress to engagement activities in complex sovereign systems, which rightly respond to a multitude of external factors beyond capital markets, including community needs, geopolitical events and leadership changes.

We recognise this decision affects the immediate transparency of the initiative, but we believe the complexities outweigh the utility. We will continue to develop its approach and review the potential to publish indicators in future update reports.

Finally, Moribus Advisory again assessed the experience of participating investors via survey results and interviews. There was overwhelmingly positive feedback about the initiative, with all respondents indicating that their expectations have either been met (52%) or exceeded (48%) - the same results as last year. Almost all (94%) participants stated that the Australian engagement programme has provided value to their organisations, with a quarter of respondents noting that it has provided significant value. Areas of identified value included relationship-building with government stakeholders, the ability to contribute to macroeconomic policy development in an apolitical manner, international collaboration, increased skills and confidence in engaging with sovereigns and internal engagement with investment teams.

The review recommended that the Australian programme should continue to evolve. It highlighted opportunities to develop more technical and sector-specific dialogue, strengthen engagement with political decision-makers and help investors integrate policy insights into portfolio construction and sovereign risk assessment.

The review also found that enhancing transparency on the link between engagement activities and investment outcomes for sovereign and sub-sovereign focus entities would also strengthen the programme's long-term credibility and support more effective engagement.

**“As a co-lead investor in the Australian programme of the PRI sovereign engagement initiative, we’ve seen how meaningful dialogue with government stakeholders can illuminate and facilitate the pathways for aligning national fiscal and policy frameworks with climate resilience. Australia’s unique economic profile and exposure to the risks and opportunities from the climate transition, and the physical risks of climate change, make it imperative for investors to engage with the relevant elements within the various sovereign-linked issuers. Through convening and amplifying investor voices, the initiative effectively encourages transparency, ambition, and accountability – particularly important given the stakes are high and the timing is urgent.”**

**Murray Ackman**

*Senior ESG and Impact Analyst,  
Pental Group*

## Looking ahead

We will adopt the external review recommendations throughout FY2025-26 to ensure the Australian engagement programme continues to provide value for both sovereign entities and participating investors.

We will seek to assist with increased market-level technical briefings to provide participants with better informed perspectives in their engagement activities. We also intend to establish a Technical Advisory Group comprising of relevant industry experts, civil society, investor networks and academia, to improve the effectiveness of the initiative.

Participants also have identified opportunities for engagement on adaptation and transition finance in 2025, including the finalisation of the next Australian NDC, in addition to existing focus areas.

The Australian Government has nominated to co-host the 31st Conference of the Parties (COP31) under the United Nations Framework Convention on Climate Change (UNFCCC) in 2026, in partnership with Pacific Island nations. A decision on the host of COP31 was at the time of writing expected at the end of 2025; however, the Australian Government has begun to consider a work programme if it was to be confirmed co-host of COP31.

Finance actors are increasingly important and active stakeholders at UNFCCC negotiations. Participating investors may therefore be well positioned to help inform Australian authorities in their preparations for any finance-related activities in the lead-up to or during any Australian co-hosted COP31.



## Investable NDC engagement

In early 2024, investors participating in the Australian engagement programme identified the country's next NDC as a crucial indicator of future market climate risk and opportunities for sovereign bond investors and other portfolio interests.

Participants also sought to inform the NDC development with information about how investors integrate national climate targets in portfolios and what aspects of climate policy best create positive investment signals to support mitigation and transition objectives.

Participants were supported in these engagements with technical presentations about the emerging concepts of 'investable' or 'enhanced' NDCs, including presentations from global organisations such as the World Resources Institute.

To assist with engagement, an issues paper was developed to summarise participating investors' perspectives through a series of workshops and surveys. This document did not represent a collective view of participants; rather it consolidated individual feedback about how NDC information is integrated by investors. It highlighted areas of convergence and divergence in this feedback to help inform policy makers and advisers on capital providers' needs and practices.

The NDC issues paper highlighted that:

- **investors use a range of metrics to assess the relative strength of countries' emissions reduction targets**, including alignment with the Paris Agreement goals and fair share emissions allocations
- **many investors overlay other factors to deepen country assessments**, including export composition, income level and geographical constraints. These additional factors also highlight globally relevant opportunities in net zero-aligned industries that are also of interest to institutional investors
- **there is a broad expectation that targets should be aligned with the country's commitment to the goals of the Paris Agreement** and their 2050 net-zero commitment, and be informed by independent scientific and expert advice
- **most countries' past NDCs to date have failed to act as an investment catalyst because of a perceived credibility gap** between targets and policy mechanisms to achieve them
- **the next generation of NDCs present an opportunity to address credibility gaps and**

**encourage more transition investment** by demonstrating clear pathways to achieving Paris-aligned goals. This includes developing more information related to sector-specific targets and pathways

- **there is a broad desire for governments to provide more information within or alongside their NDCs** on the macroeconomic impact and investment needs associated with achieving commitments, and the public financial instruments and policies that may be used to encourage private capital. This information can sometimes be referred to as NDC investment plans or prospectuses.

Participating investors supported the issues paper with a range of engagement meetings with relevant Australian Government departments, institutions and representatives. These meetings are listed in Appendix 2 of this report.

This included an in-country engagement trip by several international and domestic participants, including two days of meetings in Canberra on the NDC development. The paper was also [submitted](#) to the country's Climate Change Authority, an independent advisory body that provides independent advice to the Federal Government on new climate targets.

# Identifying additional markets

An earlier external review of the initiative's Australian pilot phase from September 2022-March 2024 found that the PRI had developed a viable model for collaborative sovereign engagement on climate issues. Most notably, the review found that it had established itself as a useful resource for governments in the policy-making process that frequently expressed interest in further engagement. It also found that the initiative reinforced economic arguments on transition where subject to politicisation and provided significant value to participating investors. The findings of this review are covered in more detail in the [2024 Progress Report](#).

Since the pilot was established, we have received increasing interest in engaging with sovereigns across markets, from both existing participants and the PRI's broader signatory base. Via a three-step process, we sought to determine the extent of this demand and better understand in which markets additional programmes would hold the greatest potential sovereign-investor engagement.

## Market selection methodology

We developed a [quantitative model](#) to assess key markets where an engagement programme could provide value to signatories. It encompassed a series of publicly available climate risk, policy response and investor exposure metrics that took into account:

- investor exposure to individual markets, including the size of government bond markets and relevance to global investors
- market emissions profile

- fossil fuel reserves and consumption
- progress and trajectory towards emissions targets
- adaptation response
- ASCOR indicators.

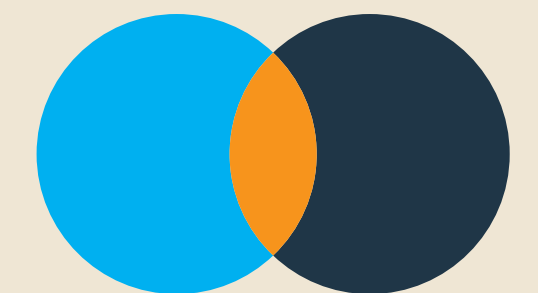
## Applying qualitative measures

For considerations that could not be assessed through quantitative metrics alone, we applied qualitative considerations to determine the potential of a programme in each market. These considerations included the prospect for impact, public policies seeking private capital support for transition and adaptation, global signatory interest, support from signatories in the market and political barriers.

## Digging deeper into signatory demand

Building on initial discussions with signatories and the initial analysis of global markets, we initiated broader and more wide-ranging discussions with the PRI's signatory base. We consulted with seven signatory advisory groups, held over 60 meetings with individual signatories and industry groups and hosted two all-signatory webinars (listed in Appendix 1). This feedback from signatories was then used to identify additional focus markets.

Through this consultation we heard that many signatories face challenges in engaging with sovereigns, which was often a reason for relatively low occurrence when compared to corporate stewardship.





**“Fixed income investors are increasingly integrating ESG considerations into sovereign bond valuation, and supplement this with collaborative sovereign engagements and tools like ASCOR that enable a consistent, transparent, and fair assessment of issuers. Through initiatives like the PRI Collaborative Sovereign Engagement on Climate Change, these efforts foster resilience, industry collaboration and long-term value. As a specialist sovereign bond manager, Colchester Global Investors is proud to support and contribute to this important work.”**

***Claudia Gollmeier***

*Managing Director, Singapore and  
Head of Investment Management, Asia Pacific,  
Middle East and Africa, Colchester Global Investors*

Many signatories flagged that seeking engagement unilaterally posed significant challenges in gaining meaningful access to policy makers to share practice and inform the policy-making process. Another common barrier to signatories' nascent sovereign engagement efforts was the lack of standards, resources and guidelines to refer to.

Signatories also flagged:

- a desire to engage with international and multilateral bodies and processes, including UNFCCC negotiation meetings
- the need for strong support from investors that are domiciled within the relevant market
- strong appetite for capacity-building, training and technical support
- engagement with developed markets on an individual organisational basis has typically been more challenging to attain, whilst access has typically been more available in many emerging economies
- expansion into emerging markets would require consideration of specific market dynamics, the risk of capital flight and the interaction with multilateral development banks.

## Outcomes: Canada and Japan of interest

Signatories broadly supported additional market engagement programmes in developed economies in the first instance, with a view to expanding opportunities to emerging markets in the longer term. This was for several reasons:

- investor access in developed markets has historically been more challenging
- there is significant value in engaging developed markets based on existing international investor exposure
- the experiences of the Australian programme would be more transferrable in the short term
- it would allow time for the PRI to ensure engagement with emerging markets is sufficiently planned to mitigate unintentional adverse outcomes and involve local expertise and stakeholders where appropriate.

The outputs of the quantitative model and subsequent decision of focus markets are not a judgement of any country's climate policies by the PRI or participating investors. All jurisdictions are navigating a complex transition to net zero and building climate resilience from different baselines, governance systems and economic positions. Ultimately, engagement with any market to which investors are exposed could be relevant to this initiative's focus areas and investors' interests.

As a result of this process, signatories indicated there was immediate value for additional market engagement programmes in Canada and Japan. These markets had been consistently identified as priorities due to the significant international investor exposure, potential for further investment, emissions profiles and development of transition policies indicating an intention to engage more private capital.



# Establishing the multi-market initiative

In early 2025, we announced that the **Collaborative Sovereign Engagement on Climate Change** would progress from its pilot phase to an ongoing, multi-market initiative. This included an ongoing commitment to engage in the Australian market and to explore and establish the engagement programmes in Canada and Japan.

In Canada, this expansion will take the form of a full, multi-year engagement programme, seeking to engage with governments and policy makers across the system, following a similar structure to Australia.

In Japan, the PRI will support investors engage with governments and policy makers through a preliminary engagement programme in the first instance, which will be reviewed after one year.

More details on the structure and intentions of the Australia, Canada and Japan engagement programmes are in their dedicated sections in this report.

## Laying the foundations

Establishing collaborative engagement programmes in new markets requires careful consideration, sufficient planning and robust governance.

Building on signatory feedback, the PRI decided the following signatory bodies and roles would ensure an effectively governed and resourced initiative:

- **a Global Advisory Committee**, which advises on the activities of the global initiative, encompassing all related governance and engagement issues, and provides strategic advice to the PRI
- **market-specific advisory committees**, to oversee each market engagement programme and provide strategic advice to the PRI
- **investor working groups**, which carry out the day-to-day engagements and includes all participating investors.

In addition, market engagement programmes will be supported by **technical groups**, comprised of relevant stakeholders and technical experts with deep expertise on climate change, sovereign engagement and the market.

Terms of reference for each of these groups have been developed to support the members in their respective roles, and they are available on the [initiative's website](#).

Given that signatories frequently identified experience, expertise and knowledge as significant barriers to sovereign engagement, we have developed a suite of resources for participants. These include initiative-focused guidance, and resources for governments to better understand how the initiative and engagement can support their climate and economic goals.

## Recruitment

Applications for signatories to join new engagement programmes opened in early 2025, beginning with the Canada Advisory Committee and Japan Advisory and Working Group and followed by applications to the broader Canada Investor Working Group.

For each of these groups, we received a greater number of applications than could be appointed. As a result, a [waiting list](#) of signatories wishing to join these engagements has also been established.

Owing the nascent nature of sovereign engagement, supporting the initiative requires greater resourcing than for corporate stewardship initiatives. Limiting the number of participating investors ultimately allows us to adequately support signatories to conduct engagement.

We will continually assess the viability of additional market engagement programmes, looking at resourcing and capacity. This is discussed in more detail in the *Next steps: FY2025-26* section of this report.

## Advisory committees and investor working groups

We appointed eight signatories to the Canada Advisory Committee, a further 17 to join the broader Canada Investor Working Group, and 10 to the Japan Advisory and Working Group.

The Canada engagement programme follows a similar structure to the Australian engagement, with an Advisory Committee and additional signatories forming the broader Investor Working Group.

Japan has been established as a preliminary engagement programme, with a joint Advisory and Working Group.

More information on the Canada and Japan engagement programmes is available in following sections, and the list of participants in each engagement programme is listed in Appendix 3.





“Policy engagement is a critical component of any modern stewardship strategy seeking to manage the system-level threats of global heating and to accelerate investment opportunities in the economic transition of behalf of beneficiaries. The Australian sovereign engagement programme has been unique in enabling collaboration between often different domestic and international investors but with a shared interest in productive and constructive dialogue with policy makers.”

*Persephone Fraser,  
Ethical Research and Climate Policy Lead,  
Australian Ethical*

## Conducting sovereign engagement

We have now benefitted from three years of supporting investors engage with sovereign entities and policy makers, and more widely we have supported investor engagement with policy makers and investor participation in multilateral events for almost two decades.

Sovereign engagement is a markedly distinct practice from other efforts to consult or inform policy makers. Whilst advocacy efforts generally seek to achieve a specific outcome(s) over a defined period and lobbying is recognised as a concerted push to change current or planned policies in the interest of the acting party, sovereign engagement focuses on sustained dialogue around system risks and opportunities where both parties can understand a range of perspectives over an extended period. Sovereign engagement, where it is related to sovereign bond investments, means the dialogue is also backed by capital provision in a way that broader policy advocacy is not.

We are always keen to refine our process. Participating investors have found value in the following steps to sovereign engagement that can be adapted to specific contexts.

### Agree on engagement priority areas

These priority areas should focus on material climate-related risks and opportunities in line with the sovereign's policy commitments and long-term goals, for example a commitment to the goals of the Paris Agreement, if applicable. It is also useful to note areas of divergence among investors based on individual priorities to help policy makers understand where complexity exists and underscore consolidated viewpoints.

### Identify key areas where investor engagement can provide value

Sovereign-investor engagement is an underutilised avenue of investor stewardship, given that global investors are well positioned to help inform sovereigns as they develop policies and targets aimed at or reliant upon private investment. Investor perspectives focused on governments' priority areas can therefore be a valuable resource for sovereigns to achieve their climate and/or economic goals.

To ensure that engagement is a useful resource for governments, perspectives and messaging should be clear, concise and targeted. Noting the areas of convergence as well as divergence offers

policy makers a clear overview of the range of perspectives and supports them to triage priority areas.

Policy makers often value specificity in engagement, with clear examples and detail that can be shared within the bounds of competition and other relevant law, and per the initiative's Terms of Reference. Therefore, quantifiable information, anecdotal examples, and clear information about why investment decisions may or may not have occurred add value and should be identified where possible ahead of engagement.

For example, investors could identify metrics for sovereign disclosure of climate-related risks or offer perspectives on effective policy signals to enhance the confidence of global capital providers.

### Proactively seek engagement through formal communication channels

Through the initiative, participating investors have found that finance departments and debt management offices (DMOs) are a useful starting or ongoing anchor point for engagement. In large part, this is due to sovereign bond holdings typically being the most direct portfolio connection to governments. DMOs can also be well placed to introduce other relevant government



representatives who investors may be seeking to engage or who may benefit from investor perspectives.

Outreach to policy makers can include formal letters that a) outline the intent of investors to seek ongoing dialogue b) acknowledge climate-related risks and opportunities within the sovereign system, and c) demonstrate the value of engagement to policy makers in supporting them to achieve their climate and economic policy goals.

### **Remain politically neutral and rooted in long-term portfolio considerations**

Investors should recognise the ultimate accountability of government representatives and public bodies to the communities they represent, and that investor perspectives are only one part of the policy-making process.

Investor engagement with elected representatives or parliamentary officials, as well as with public servants and regulators, should remain politically neutral and focus on the long-term needs and fiduciary duty of investors, rather than immediate pressing political concerns and supporting one legislative agenda over another.

Investors can also consider engagement with alternative parties of government or minority parties that play a coalition or legislative role. This ensures that all relevant system actors are privy to

the same global investment perspectives and that the politically neutral nature of the engagement is maintained.

Conducting engagement across the political spectrum and with politically neutral representatives like public servants is also practically important to maintain sustained dialogue across short-term electoral cycles and to reflect the long-term needs of investors.

Dialogues should centre on the original intent of the engagement outlined in initial contact but remain open to discussion topics, input and questions from all parties.

### **Monitor progress**

Attributing policy and market outcomes to sovereign engagement activities is inherently challenging given the breadth of stakeholders in the policy-making process, and the long-term and non-linear way in which developments can occur. Investors should be cautious to not overestimate or overstate their role.

Quantifiable metrics are useful to track the cadence and quantity of engagement, whilst qualitative considerations are often needed to assess progress, including anecdotal evidence on how well received and useful engagement has been, requests for further input, or if key messaging is included in subsequent policies.

Given the difficulty in linking engagement efforts to an improved sovereign or sub-sovereign climate risk profile, indicators of market progress should be identified and monitored over time primarily as a means of evaluating market direction rather than engagement success. This is useful to refine engagement practice and messaging, and to re-prioritise engagement focus areas to ensure efforts effectively address financially material climate-related risks and opportunities.

### **Maintain open dialogue**

Maintaining constructive dialogue within a sovereign system over the long term is critical to the success of engagement efforts.

Engaging with sovereigns on policy also depends on several external factors, including the surrounding economic, political and social context. As such, investors should remain responsive to and cognisant of these contexts, and their priorities and messaging should be adaptable. However, engagement should remain rooted in system-level issues facing portfolios and economies, like climate change.

The breakout boxes *Investable NDC engagement* and *Sovereign disclosure* in this report provide useful insights into what this process has looked like throughout the initiative.

# Engaging in Canada

**We have signalled our intent to establish a full engagement programme in Canada. We seek to in part replicate the experience, scale and structure of the Australian engagement programme with a focus on national and sub-sovereign issues.**

Initial investor engagements with Federal and Ontario government representatives and 14 PRI signatories were held on the sidelines of the PRI in Person conference in Toronto in October 2024. The engagements explored themes including investor practice on sovereign climate risk integration, government responses to physical risks, jurisdictional targets and policy architecture, alongside a general introduction to the initiative. More information can be found in the meeting log in Appendix 2.

The Canadian market faces many opportunities and risks associated with climate-related issues, such as growing physical risks like wildfires and growth in global demand for critical minerals related to transition technologies.

In applying to join the Canadian engagement, participating investors have signalled an interest in exploring:

- NDC progress and supporting policies
- adaptation responses
- transition finance
- methane emissions abatement
- sovereign disclosure and labelled bond reporting.

The PRI was oversubscribed with signatory applications. Ultimately a group of 25 participants, responsible for approximately US\$12trn in combined AUM, was identified. A signatory-led Advisory Committee to advise the PRI on the structure of the engagement has also been convened.

Initial engagement outreach is expected to commence in FY2025-26.



# Engaging in Japan

**We have signalled our interest in establishing a preliminary engagement programme in Japan to better understand the viability and value of engagement to signatories and sovereign entities prior to any longer-term commitment.**

Initial engagement was held with Japanese authorities at the PRI in Person conference in Tokyo in 2023. Further details about this engagement can be found in the [2024 progress report](#).

Japan has made significant strides in establishing a market-wide energy and industry green transition (GX) plan. It has also signalled a desire to attract private capital support for transition through the issuance of GX transition bonds and other finance mechanisms.

In applying to join the preliminary Japan engagement, participating investors have signalled an interest in exploring:

- sovereign disclosure and labelled bond reporting
- transition finance
- NDC progress and supporting policies
- carbon pricing.

Again, we were oversubscribed with signatory applications, from which we established a group of 10 participants, responsible for approximately US\$6trn in combined AUM. These signatories form the signatory-led Japan Advisory and Working Group, which both advises the PRI on the structure of the programme and conducts the engagements.

Initial outreach is expected to commence in FY2025-26. The Japanese Government is already conducting extensive market engagement on its GX bond issuance and transition plans, which may be of interest to PRI signatories beyond this initiative.

We will review the engagement programme after approximately one year to consider whether it is providing sufficient additionality to these existing efforts and to assess the viability of an ongoing programme with an expanded group of investors.

## Sovereign disclosure

Since the turn of the decade, [government DMOs have reported](#) increasing demand from institutional investors for more jurisdiction-wide climate and environment information, alongside more traditional requests for information about economic and social trends, to help inform bond portfolio allocation decisions.

Separate from labelled bond reporting, such as green bond allocation and impact reports, this disclosure relates to issuer-level exposure and responses to relevant climate-related issues.

This increased interest is reflected in a 2022 [World Bank report](#), which highlighted the necessity for sovereigns to keep pace with the rapid progress in sustainability reporting trends. This disclosure will be important to investors' understanding of climate-related risks and opportunities, and could help to avoid unsustainable debt burdens and increasing costs of capital.

Interest in sovereign disclosure reflects growing calls for private sector climate risk disclosure, as well as other industry trends including:

- increasing integration of sovereign climate-related considerations in fixed income and other portfolio allocations
- growing evidence, understanding and

concern about the impact of climate-related risks and opportunities on economic growth, financial stability and bond yields

- a desire to find portfolio value by understanding where markets have plans to reduce climate risk and improve economic performance.

Amid these industry developments some jurisdictions have begun issuing summary information about risks, opportunities and policy responses in different forms, in some cases specifically designed to inform capital markets. In the Australian context, which has been the pilot focus market of the initiative, participants have observed the development of:

- [national climate-related information packs](#) for investors
- [state climate-related information packs](#) for investors
- state [sustainability reporting](#)
- state [climate-risk disclosure](#) reporting
- the inclusion of climate statements, analysis and tagging in [federal budget reporting](#)
- the inclusion of climate statements and analysis of [state intergenerational reporting](#).

Through a series of workshops and consultations with global standard-setting bodies such as the International Public Sector Accounting Standards Board (IPSASB) and the institutional stewards of public assessment frameworks like ASCOR, participants developed an issues paper on sovereign disclosure on climate change and investor needs to share with focus entities of engagement.

This document did not represent a collective view of participants; rather, it consolidated feedback about investor needs and highlighted areas of convergence and divergence to inform debt offices and policy makers about evolving capital market views.

The issues paper identified:

- a broad recognition that disclosure can provide a useful basis for sovereigns to develop national climate policies to more effectively address climate-related financial risks and opportunities through mitigation, adaptation and preparedness
- strong support for the issuance of whole-of-government disclosure in addition to entity-level reporting



- that disclosure could reduce uncertainty and improve capital market confidence in a jurisdiction's ability to manage risks and maximise opportunities, consistent with the documented [market response to corporate disclosure](#)
- agreement that improved sovereign climate-related risk disclosure can support better access to capital and improved costs of borrowing, but views differed on its utility and effect because different governments will be at varying stages of progress
- there is strong interest in reporting on metrics related to economic, fiscal and/or public asset exposure to transition risks and opportunities, as well as physical risks
- recognition of sovereign disclosure on climate-related risks and opportunities is useful for diversified investors and could also support the allocation of capital to transition opportunities in capital markets other than sovereign debt.

Participants also recognised that the ASCOR framework provided a useful partial basis for sovereign disclosure, alongside emerging standards from IPSASB and others, such as the Partnership for Carbon Accounting Financials (PCAF).

Participants also considered metrics for sovereign reporting put forward by the World Bank and provided views on which were most critical, as listed in Table 1.

This issues paper was shared with Australian jurisdictions that have indicated intent either through engagement or via their own reporting to develop disclosure or other relevant market-focused climate related information.

Participants also recognised that global standards for sovereign disclosure are only now emerging. As part of engagement activities, participants in the Australian programme sought to engage with IPSASB, which is developing climate reporting standards for public entities. Participants initially received a briefing on IPSASB's plans in early FY2024-25, and then later held two roundtables to provide perspectives of investor needs. The issues paper developed in the Australian engagement was also used to help inform the PRI's [own submission](#) on the IPSASB draft climate reporting standards.

Table 1: Investors' climate metric priorities for public sector reporting  
(in order of preference)

Category	Metric
Budget and spending	Percentage of total budget allocated to climate and nature negative activities
	Percentage of total budget allocated to climate and nature positive activities
	Actual and planned budget for climate and nature negative activities
	Actual and planned budget for climate and nature positive activities
	Taxes, subsidies and direct expenditure related to climate and nature positive activities
	Taxes, subsidies and direct expenditure related in sectors such as energy, agriculture, forestry, fisheries and waste sectors
CO2 emissions	Total CO2 emissions
	CO2 emissions per unit of GDP
	CO2 emissions per sector
	Total CO2 emissions of imports
Water	Water stress

Category	Metric
Budget and spending	Funding programs for nature and climate positive activities
	Budgets for units in ministries, departments, and agencies dedicated to coordinating responses
CO2 emissions	CO2 emissions per capita
	Growth rate of CO2 emissions
	CO2 emissions reductions against base year
Land use	Land use changes
	Arable and animal agriculture, forestry and fishing land use, including their contribution to GDP
CO2 emissions	Percentage of emissions targets that will be met using credits
Land use	Percentage of forested land as recommended coverage
	Percentage of terrestrial and marine areas as protected
Water	Total supply of freshwater
	Renewable internal freshwater sources



# Next steps: FY2025-26

**We are focused on ensuring a steady and sustainable expansion of the initiative over the next 12 months. Primarily, this means bedding down additional engagement programmes in Canada and Japan and continuing to strengthen engagement that is already underway. The engagement programmes in Australia and Canada will be supported by in-country full-time PRI Sovereign Engagement Team staff, and the preliminary engagement programme in Japan will be supported by the central PRI Sovereign Engagement Team.**

In the immediate term, we will establish a Global Advisory Committee, comprised of a selection of nominated individuals that currently sit on the market-specific advisory committees. This group will oversee the strategy, governance and operations of the multi-market initiative and advise the PRI on establishing engagement programmes in additional markets. Where we establish additional market engagement programmes, members of each market advisory committee will be appointed to the Global Advisory Committee to represent each programme and, where possible, offer perspectives that cover different investor types and domiciled regions.

## Prospects for expansion

We will review prospects for additional programmes on an ongoing basis. Based on the feedback received during the FY2024-25 consultation process, we recognise that signatories are interested in engaging with emerging market governments on climate change issues.

To determine which countries are of most immediate interest to investors

and how a subsequent programme may take shape, we will consult with our signatory base on prospects for an emerging market engagement programme(s) in FY2025-26.

The process for identifying and selecting potential additional focus markets will follow the process used in FY2024-25, outlined in the earlier section, *Identifying additional markets*. This will include a quantitative assessment of countries, a qualitative overlay and signatory consultation process.

## Guidance and practical insights

To address feedback that low awareness and limited experience are a barrier to sovereign engagement efforts, we intend to step up our support of signatories. This will include updated practical guidance on how to carry out sovereign engagement, drawing on expertise from our Sovereign Debt Advisory Committee and Sub-Sovereign Debt Advisory Committee, as well as from our wider signatory base, and the practical experience gained through the initiative.

We will engage with signatories currently underrepresented in the initiative, notably in Africa, Asia, Latin America and the Middle East, and use various channels to promote opportunities for signatory involvement, including the initiative waiting list, which is open to all signatories.

Signatories on the waiting list will be provided with regular updates on the initiative progress, key learnings, guidance updates and opportunities to contribute. These opportunities may include providing feedback on issues papers and identifying useful engagement priorities. We will contact and consult with signatories directly when it comes to considering additional focus markets.

## APPENDIX 1:

# PRI signatory groups consulted on initiative expansion

- Collaborative Sovereign Engagement on Climate Change Working Group plus wait list
- Australian Sovereign Engagement Advisory Committee
- Asset Owner Technical Advisory Committee
- Sovereign Debt Advisory Committee
- Sub Sovereign Debt Advisory Committee
- Sustainable Systems Investment Managers Reference Group
- Net Zero Asset Owners Alliance
- All-PRI signatory webinar: Next steps in the PRI's Collaborative Sovereign Engagement on Climate Change (12 December 2024)



# APPENDIX 2:

## Meeting log FY2024-25<sup>1</sup>

Entity/Entities	Date	Topic
Australian Climate Change Authority	April 2024	NDC; climate targets and pathways
Australian Department of Industry, Science and Resources	April 2024	Future Gas Strategy
South Australian Government Financing Authority	April 2024	Introduction to the initiative
International Public Sector Accounting Standards Board	May 2024	Sovereign disclosure standards
Commonwealth Treasury	May 2024	Sovereign disclosure standards
Australian Climate Change Authority	July 2024	NDC; climate targets and pathways
Australian Department of Climate Change, Energy, the Environment and Water Commonwealth Treasury	July 2024	NDC; climate targets and pathways
Australian Office of Financial Management Commonwealth Treasury	August 2024	Green bond reporting
Australian Clean Energy Finance Corporation	August 2024	Impact reporting; energy transition

<sup>1</sup> The PRI uses the UK financial year of 1 April 2024 – 31 March 2025. Some meetings in this log may also be captured in the previous initiative progress report released in June 2024 as reporting ranges have changed for this iteration. Only meetings considered as engagement have been included, and meetings for the general information of participants, such as technical briefings, have been excluded.

Entity/Entities	Date	Topic
NSW Treasury TCorp	August 2024	Climate risk disclosure; investment practice
Australian Treasurer	August 2024	NDC; climate targets and pathways; sustainable finance
Australian Climate Change and Energy Minister	August 2024	NDC; climate targets and pathways
Office of the Shadow Minister for Climate Change and Energy	August 2024	NDC; climate targets and pathways
Office of the Australian Prime Minister	August 2024	NDC; climate targets and pathways; sustainable finance
Assistant Minister for Climate Change Minister for Emergency Management and Cities	August 2024	Adaptation
Australian Federal Independent MPs	August 2024	NDC; climate targets and pathways; sustainable finance
Australian Office of Finance Management Commonwealth Treasury	August 2024	Green bond reporting
Commonwealth Treasury	August 2024	NDC; climate targets and pathways; sustainable finance
Department of Foreign Affairs and Trade	August 2024	NDC; climate targets and pathways

Entity/Entities	Date	Topic
<b>Queensland Treasury</b> <b>Queensland Treasury Corporation</b> <b>Queensland Department of Energy and Climate</b>	August 2024	Methane abatement; climate targets and pathways; labelled bonds issuance
<b>Commonwealth Treasury</b> <b>Australian Department of Finance</b> <b>Australian Department of Foreign Affairs and Trade</b> <b>Australian Department of Industry, Science and Resources</b>	August 2024	NDC; climate targets and pathways; sustainable finance
<b>Finance Canada</b> <b>Environment and Climate Change Canada</b> <b>Natural Resources Canada</b>	October 2024	Introduction to the initiative
<b>Ontario Financing Authority</b> <b>Ontario Ministry of the Environment, Conservation and Parks</b>	October 2024	Introduction to the initiative
<b>Indonesian Ministry of Finance</b>	October 2024	Labelled bonds issuance; investor practice
<b>Australian Department of Climate Change, Energy, the Environment and Water</b>	October 2024	NDC; climate targets and pathways
<b>Australian Office of Financial Management</b> <b>Commonwealth Treasury</b>	December 2024	Green bond reporting

Entity/Entities	Date	Topic
<b>Western Australia Treasury Corporation</b> <b>Western Australia Department of Jobs, Tourism, Science and Innovation</b> <b>Western Australia Department of Water and Environmental Regulation</b> <b>Western Australian Department of Energy, Mines, Industry Regulation and Safety</b>	December 2024	Energy transition; climate disclosure; investment practice
<b>Victorian Department of Treasury and Finance</b> <b>Treasury Corporation of Victoria</b>	February 2025	Emissions reduction and renewable energy progress; energy transition; labelled bond program
<b>International Public Sector Accounting Standards Board</b>	February 2025	Sovereign disclosure standards



## APPENDIX 3:

# Participating signatories in the Australia, Canada and Japan programmes

### Australia Investor Working Group

- Achmea
- AllianceBernstein
- Ardea Investment Management
- Australian Ethical
- Aviva Investors
- BNP Paribas Asset Management
- Brandywine GLOBAL
- Brown Advisory
- Candriam
- Colchester Global Investors
- Fidelity International
- HESTA
- Insight Investment
- Jupiter Asset Management
- Legal & General – Asset Management
- Morgan Stanley Investment Management
- Neuberger Berman
- Pandal Group
- QIC
- Rest
- Robeco
- Sumitomo Mitsui Trust Asset Management
- TCW
- T. Rowe Price

### Canada Investor Working Group

- Addenda Capital
- AllianceBernstein
- Allianz SE
- Alphafixe
- Amundi
- Aviva Investors
- BMO Global Asset Management
- Brandywine Global
- Brown Advisory
- Colchester Global Investors
- Degroof Petercam Asset Management
- Erste Asset Management GmbH
- Fierra Capital
- Healthcare of Ontario Pension Plan
- LGT Capital Partners
- Morgan Stanley Investment Management
- National Bank Investments
- Neuberger Berman
- Pictet Asset Management
- PIMCO
- Robeco
- Sumitomo Mitsui Trust Asset Management
- TCW Group
- TD Asset Management
- University Pension Plan of Ontario

### Japan Advisory and Working Group

- Amundi
- Aviva Investors
- Brandywine GLOBAL
- Caisse des dépôts et consignations
- Candriam
- Colchester Global Investors
- Legal & General – Asset Management
- Nomura Asset Management
- Sumitomo Mitsui Trust Asset Management
- TCW Group

## The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: [www.unpri.org](http://www.unpri.org)



## The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

### United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: [www.unepfi.org](http://www.unepfi.org)



### United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: [www.unglobalcompact.org](http://www.unglobalcompact.org)

