

Investor Stewardship of Sovereign Debt Portfolios: Is Real-World Impact Possible?

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Abstract

Investor stewardship is increasingly being deployed as a strategy for driving positive environmental outcomes. The majority of research on stewardship has concentrated on shareholder engagement in the public equities asset class, while other asset classes have been largely overlooked. Consequently, our understanding of the nuances and complexities of sovereign debt stewardship remains limited, despite its critical role in the global economy and its importance in the transition to net zero. Drawing conceptually from a burgeoning literature on investor impact creation, we undertake document analysis and conduct 20 semi-structured interviews with key stakeholders to explore the levers available to institutional investors as they seek to generate real-world impact on environmental issues through sovereign debt investment. We argue that investors can generate impact through their capital allocation, most effectively by investing in sovereign sustainability-linked bonds, and by signalling demand for environmental action through overweighting Use-of-Proceeds bonds in their portfolios. We present new evidence that shows investors are routinely engaging with sovereign nations on environmental policy, and we discuss the nuances inherent in deploying engagement to create impact in this asset class. We conclude that there is strong potential for universal owners to create positive impact through engagement, but we highlight risks associated with the practice, most notably the potential to infringe on the sovereignty of the engaged country.

Keywords: Stewardship, sovereign debt, impact, engagement, green bonds, active ownership, sustainable finance, sustainable investing

1. Introduction

According to a World Bank survey, over 90% of sovereign debt managers reported receiving increasing numbers of inquiries from investors pertaining to environmental, social, and governance (ESG) issues (Hussain et al. 2020). Crucially, investor activity increasingly extends beyond information-seeking: there is mounting evidence that many investors are actively seeking to influence the policies and practices of sovereign issuers to generate measurable real-economy outcomes (Yamahaki and Marchewitz 2023).

This unusual, even radical, strategy of institutional investors intervening directly with governments emerged as institutional investors, especially universal owners (UOs) that hold representative slices of the entire economic system (Hawley and Williams 2000), realise that urgent, systemic action needs to be taken to manage the climate risks threatening the long-term prospects of their portfolios. Sovereign decisions shape the economic, social, and environmental systems in which UOs are invested, and are therefore more consequential for managing systemic sustainability risks than the actions of individual companies (George et al. 2025). Sovereign debt investors hold unique leverage to influence real-economy outcomes through influencing government-level policy-making. However, this phenomenon is scarcely addressed in the literature on investor stewardship, which remains heavily focussed theoretically and empirically on how investors can drive impact through the listed equity asset class.

In the context of climate and environmental sustainability, creation of investment impact is a contested concept (Daggers and Nicholls 2016), with scholars debating issues ranging from whether financial concessions are necessitated (Fiedrich and Fulton 2009), to how ‘additionality’ can be measured (Harris 2021). Stewardship, defined as ‘the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries’ (FRC 2025), is widely promoted and adopted among investors as a term for responsible investment, yet stewardship does not necessarily equate to investors creating positive, real world outcomes. Importantly, ‘impact generation’ entails more radical interventions than ‘impact aligned’ approaches (Busch et al. 2021), as the former seeks to actively contribute to solutions and transformations that are necessary to avoid climate- and biodiversity-related financial system

collapse. To achieve such impact, the literature suggests that investors may alter the cost of capital for (un)sustainable assets, alter access to capital for (un)sustainable assets (providing or denying liquidity), and investor engagement (Caldecott et al. 2024; Kölbel et al. 2020). These studies agree that engagement, defined as an investor ‘communicating with current or potential investees/issuers to improve ESG practices, sustainability outcomes or public disclosure’ (Belsom et al. 2021, 3), tends to be the most effective mechanism for driving change. Yet, existing literature has not considered applying these mechanisms, nor any other to the sovereign debt asset class.

In this paper, therefore, we examine how these mechanisms can create real-world climate impact through sovereign debt investment and engagement. Defining and demonstrating impact in sovereign debt investment differs significantly from how impact is measured with corporate engagement for three key reasons. First, government spending necessarily spans numerous departments and activities, many of which are unlikely to be considered aligned with an ethical investment motivation; the most obvious examples being defence spending and fossil fuel subsidies. As of 2024, no country is considered aligned with the 1.5C Paris Agreement goal (Climate Action Tracker 2024). When investing in public debt, it is often not possible to isolate the use of proceeds towards sustainable activities (the exception being labelled debt, discussed later in this paper). Second, the number of countries issuing debt is far lower than the number of companies issuing debt. This implies a lack of options for sovereign bond investors seeking to align with investment with sustainability objectives, and a lack of substitute investment should investors wish to divest. Third, and rarely addressed by proponents of sovereign debt engagement, engagement with sovereigns creates impact on the policy, companies, households, and environment of an entire country, rather than stake/shareholders of a company. To this end, engagement with governments raises critical questions regarding sovereignty and the ethics of private investors wielding influence that impacts an entire citizenry. The literature has critiqued instances where private investors exerted pressure on sovereign nations to influence policy-making (Baker 2013), especially during debt crises (Paddock 2002), but the literature has yet to address the financial, environmental, and political economic implications of deploying sovereign debt engagement to shape climate and environmental governance.

To critically understand the implications of sovereign debt stewardship on stewardship practice (Belsom et al. 2021), investment impact generation (Kölbel et al. 2020), and climate justice (Sultana 2022), we seek to answer three Research Questions to investigate the mechanisms of impact creation in the sovereign debt asset class.

Research Question 1: How can investors create positive, real-world impact through their stewardship of sovereign debt portfolios?

Research Question 2: To what extent do the impact mechanisms established in the literature apply to the sovereign debt asset class?

Research Question 3: What are the features and considerations unique to this asset class that investors must take into account (but may not be) when pursuing engagement with governments to optimise outcomes and avoid serious negative externalities?

To answer these research questions, we bring literature related to investor impact and stewardship together with political economy literature to conceptualise sovereign debt stewardship in the worlds of sustainable finance and climate governance. Specifically, we draw from literature that details mechanisms of investment impact-generation and examine whether and how sovereign debt investor can deploy these strategies to drive real economy change. We identify the most effective tools and strategies available to sovereign debt investors to create climate-related impact, while also accounting for the specific barriers and nuances that exist within this asset class. We examine only climate-related impact to ensure a focussed scope, as other issues, particularly social themes, are likely to create additional nuances.

This paper makes direct contributions to four bodies of literature, in addition to addressing a topic of direct relevance to both policy and industry. First, we advance debates on stewardship impact by evaluating new pathways for climate impact creation at a broader scale. Second, we develop universal ownership theory by empirically examining the ability of eponymous universal owners to create the system change predicted to be necessary for their motivation to attempt to create impact. Third, we contribute to a burgeoning literature on climate finance instruments and their

efficacy. Finally, we raise issues of climate justice and sovereignty, arguing for their deeper integration into debates around impactful stewardship.

The remainder of this paper is structured as follows. Section 2 provides a background of the literature and landscape of impact investing in sovereign markets. Section 3 outlines the paper's Methodology. Section 4 presents and discusses the results from the document analysis and interview data, and Section 5 concludes.

2. Background

‘Sovereign debt’, also known as ‘public debt’, refers to loan and bond obligations that arise when national governments borrow money from investors (Tomz and Wright 2013). As of 2023, sovereign debt comprised around 21% of all investable assets weighted by market capitalisation (Warken et al. 2023). Sovereign bonds occupy a unique position in the financial system. For investors, sovereign bonds are typically seen as liquid and low-risk relative to other asset classes (Martinez et al. 2022), and are often an integral component of portfolios of long-term investors such as pension funds. Sovereign bonds are highly sensitive to the risks posed by climate change. The cost of a country's debt is positively related to perceived risk (Bingler 2022) and evidence is emerging that exposure and vulnerability to climate-related disasters is increasing these costs for sovereign issuers (Beirne et al. 2020; Cevik and Jalles 2022; Naifar 2023; NGFS 2024). Similarly, sovereign debt interest rates are impacted by downgrades from ratings agencies and Klusak et al. (2023) predict the undermining of economic stability from increased physical and transitional climate risks will cause downgrades as early as 2030. Climate risks, therefore, are beginning to adversely affect the valuation and risk profile of sovereign debt within investor portfolios.

At the same time, sovereign debt plays a critical role in facilitating the delivery of economically, environmentally, and politically sustainable net zero plans (Slav'yuk and Slaviuk 2018; Perera 2010; Griffiths 2018). The transition to net zero is estimated to require \$9.2 trillion on average per year globally (Mckinsey 2022), and recent spending has been sourced equally from public and

private sources (Naran et al. 2022). However, as societies face increasingly significant impacts of climate change (Monnin et al. 2024; Banga 2019), more resources will be required for climate adaptation, which remains heavily dependent on public financing owing to the unfavourable risk-return profiles of adaptation projects (Climate Policy Initiative 2021).

As nations seek credit for their climate-related expenditure, they have begun to issue labelled bonds earmarked for climate-related expenditure. Labelled bonds belong to two key categories: use-of-proceeds (UoP) bond (more commonly known as ‘green bonds’), where the proceeds of the bond are exclusively earmarked for ‘green’ destinations, and sustainability-linked bonds (SLBs), where the proceeds of the bond can be spent for general purposes upon the condition the issuer meets pre-determined sustainability performance targets (SPT) when the bond matures (Bouzidi and Papaioannou 2021).

One of the most documented pathways to drive impact in debt investment is through improving the cost of capital for the borrower, otherwise known as a ‘greenium’ (Hachenberg and Schiereck 2018; Zerbib 2019). Furthermore, Zhang et al. (2021) show how the issuance of UoP bonds can depress cost of capital for the whole issuing firm, not just the bond itself, indicating that investors can influence both the cost of capital and access to capital mechanisms. However, evidence from corporate issuances also highlights the shortcomings of these instruments in delivering real-world sustainability outcomes (Flammer 2018; Maltais and Nykvist 2020). UoP bonds have been found to refinance existing projects (Bongaerts and Schoenmaker 2019; Tuhkanen and Vulturius 2022), as well as projects that bring marginal or negative environmental outcomes (Jones et al. 2020; Springer et al. 2022), enabled by lenient, geographically disparate regulations and taxonomies (Gilchrist et al. 2021; Larsen 2022). This suggests that UoP debt has limited potential in altering issuer behaviour. However, many studies claim that, even if the market is imperfect, green bond issuance has indirect positive effects such as credibly signalling the issuer’s green commitments to investors (Flammer 2018; Shi et al. 2023).

Sovereigns only began issuing UoP bonds in 2017, yet early evidence suggests they can provide similar positive, indirect effects. Cheng et al. (2024) find that sovereign issuance spurs increased

corporate issuance in the same jurisdiction, promotes best practice for verification and reporting, and provides improved liquidity and lowered cost of capital in corporate green bond markets. Sovereign issuance of UoP bond is also increasing dramatically, with nearly \$2trn outstanding in 2024 from more than 50 issuers (Cheng et al. 2024).

Conversely, SLBs are designed to alter the cost of capital and issuer behaviour by linking interest rates with issuers' sustainability performance. Most SLBs have 'step-up' structures, whereby the interest on the bond increases (steps up) if the issuer fails to meet the SPT, thus putting financial *pressure* on the issuer to commit to the SPT (Ramel and Michaelsen 2020). Less commonly, a step-down structure exists when achieving a target is met with a decrease in the coupon. Despite such structural design to integrate issuer sustainability performance with cost of capital, SLBs have faced criticisms of supporting unambitious SPTs (Kölbel and Lambillon 2022) and lenient reporting and monitoring structures that fall short of holding issuers accountable for reporting their progress of meeting SPTs in a rigorous and timely manner (Ul Haq and Doumbia 2022). Notably, issuers have delayed SPT target dates and sold off carbon-intensive assets (rather than seeking to decarbonise their operations) to prevent step-up penalties. As of 2025, only three countries have succeeded in issuing an SLB; Chile, Uruguay, and Slovenia.

While the purchase of labelled bonds generates impact primarily by adjusting access and cost of capital, there is emerging interest amongst fixed-income investors in leveraging the engagement mechanism to drive issuer behavioural change (van Zanten et al. 2021). Compared to shareholder engagement, little research has been conducted into engagement in the debt asset class (with a handful of exceptions such as Gomtsian (2022) and Hoepner and Schneider (2024)), and much less with sovereign debt engagement. However, transferable lessons can be drawn from the wealth of shareholder engagement literature. Notably, 'stakeholder salience theory' suggests influence is positively related to attributes of power (stakeholder's ability to achieve their outcomes regardless of corporate concession or resistance), legitimacy (society attribution of stakeholder rights to exert influence), and urgency (stakeholders' ability to command immediate attention and action) (Mitchel et al. 1997). Bondholders do not enjoy voting rights, a key pillar of shareholder salience and one of the most important tools for stewardship, nor can they file proposals. Sovereign

bondholders have additional limitations; there are no board roles to influence, and litigation is more complicated, albeit not necessarily impossible (Gomtsian 2022). However, there are other levers to exert influence at bondholder's disposal, including engagement during investor roadshows and, at the critical juncture of bond refinancing, bondholders wield power through the threat of withholding investment (Hoepner and Schneider 2024).

Indeed, sovereign debt engagement bears broader implications than merely deploying engagement strategies in a novel asset class. Rather, it represents an ambitious approach to stewardship that seeks to drive system-level change to tackle the scale and magnitude of financial risks incurred by anthropogenic environmental change (Gordon 2022; Furguele 2022). Otherwise coined as 'macro-stewardship', meaning 'financial institutions actively engaging governments, policymakers, non-governmental organizations, academics, and other key influencers to correct material market failures on sustainability issues' (Waygood 2022; George et al. 2025), this approach highlights the importance of engaging with policy-makers to drive macroeconomic change that are deemed more effective than engaging with investee companies individually.

Considerations of sovereign bondholder salience require the consideration of additional nuances. Historically, investor influence over sovereign nations through bond holdings has sparked controversy, with accusations that debt crises have been exacerbated by investor pressure in less economically developed nations (Paddock 2002). Questions have been raised over the sovereignty, democratic and ethical implications of private financial institutions in effectively taking on the role of policymakers through interactions with sovereigns (Baker 2010; Igan et al. 2012; Kalaitzake 2017). Moreover, the leverage creditors have over sovereigns may undermine the power, willingness, or effectiveness of states in regulating the financial sector (Baker, 2013). The profile of these investors adds to the consternation. The largest private investors are concentrated in Global North countries (mostly Europe and the US), whose contribution to global emissions has dwarfed other countries (Ritchie and Roser 2024). This raises concerns about climate justice and neocolonial dynamics, as investors from historically high-emitting countries exert influence over the policy decisions of lower-emitting, often more climate-vulnerable, nations. Such asymmetries risk reproducing and exacerbating global inequalities under the guise of sustainable finance.

Indeed, the concept of climate debt is increasingly garnering attention; the notion that developed nations are indebted to less developed nations due to the former's responsibility in causing climate change (Matthews 2016; Pickering and Barry 2012). Beyond climate change, debt is also viewed by decolonial scholars as being used by the Global North to create vicious cycles of policy compliance, financial vulnerability, and economic dependency (Frank 1966; Toussaint 2019). Instead of continued lending or even concessional lending, unconditional debt relief and grant giving, is seen as a more just approach for providing financial support to support Global South countries to achieve their climate targets (Táíwò 2022; Volz et al. 2020). Present and historical injustices, and power dynamics between private investment institutions and governments, especially those in the Global South, are therefore critical for investors to consider when seeking impact through their sovereign debt investments.

3. Methodology

The bulk of existing research into stewardship, and engagement in particular, has been undertaken using quantitative approaches (for example, Dimson et al. 2015; Hoepner et al. 2018; Bauer et al. 2023; Barko et al. 2022). This is in part due to the focus on financial outcomes from such efforts, and in part due to the difficulty inherent in many qualitative approaches; for example, finding experts willing to be interviewed and institutions being wary of sharing insights (Ma et al. 2020). Qualitative analyses, however, uniquely enable a rich, thorough, and adaptable set of data that provide for an in-depth analysis of our research objectives that focus on the rationale, processes, and outcomes of sovereign debt engagement, which remains an overlooked aspect in the literature. To this end, we deploy an iterative, qualitative, analytical methodology drawing on two key data sources.

First, policy documents, press releases, and NGO reports (totalling 46 documents) were collated and systematically analysed to provide insights into the landscape of investor stewardship of sovereign debt portfolios. Drawing on the literature to identify key actors within the sovereign debt ecosystem, including leading global investors, multilateral institutions, and non-governmental organizations, we identified 23 cases in which investors engaged directly with sovereign states

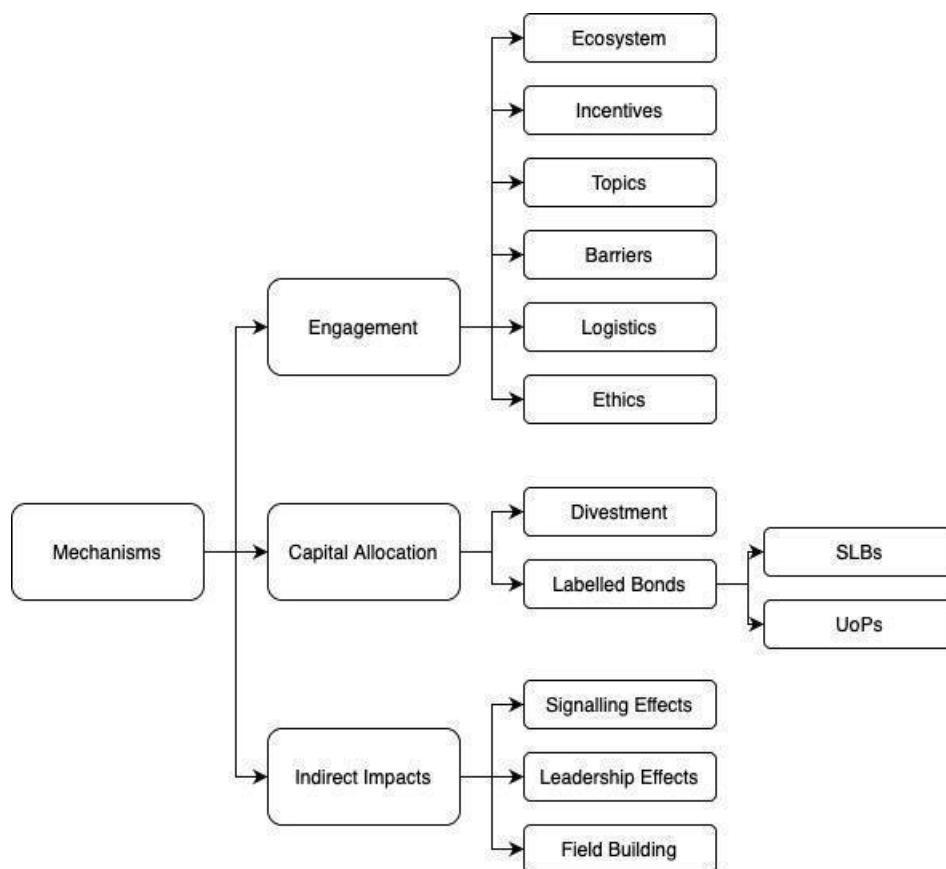
(see Appendix C). The content of these documents were analysed and categorised into themes in order to inform the second stage of the methodology involving semi-structured interviews (Wongsuphasawat et al. 2019) with key actors from across the ecosystem of sovereign debt investment. The themes that emerged were used to develop both the list of experts to be approached for interviews, and the interview guides. For both aspects of the methodology, we focus only on sovereign bond obligations and not loans, as the latter are bilateral obligations with limited publicly available information.

20 online interviews, with durations ranging from 30 to 75 minutes, were conducted over Microsoft Teams between July 2023 and July 2024. 17 of these were audio-recorded and transcribed; 3 interviewees preferred not to be recorded, and in these cases notes were taken during the interviews. As is common practice for conducting business elite interviews (Harvey 2011), all interviews were undertaken on the basis of anonymity in order to ensure participants were able to share openly and honestly on potentially controversial subjects, without concern over potential negative consequences for the individuals or the institutions they represent (Kang and Hwang 2023). Recruiting appropriate interviewees was challenging due to the emergent and sensitive nature of the topic being researched. Despite this, 20 individuals agreed to be interviewed, which allowed an in-depth understanding to be developed of the topics under analysis. While the sample size is relatively modest, it is appropriate for qualitative research of this kind, where depth of insight is prioritised over breadth. A breakdown of the type of the financial institutions represented can be found in Appendix A. Individuals chosen for interview were selected for their work for (or with) key market actors such as major sovereign debt investors, multilateral organisations involved in debt issuance and stewardship, collaborative engagement campaigns, and commercial banks. Ensuring this range of represented institutions was a deliberate aim, in order to attain views from across the sovereign debt ecosystem. Early interviewees were able to suggest further suitable interviewees, and this snowball approach yielded a much higher rate of acceptance. The overall acceptance rate was 60.6%.

An open coding process was used to identify key themes in the data (Chametzky 2016). The coding was initially based on the mechanisms for impact discussed in the literature (Kölbel et al.

2020; Caldecott et al. 2024) and the key themes that emerged from the document analysis. Due to slight differences in the mechanisms between prior literature, we begin with those put forward by Kölbel et al. (2020), taking the capital allocation mechanism to encompass the cost of capital and liquidity mechanisms of Caldecott et al. (2024), and the indirect impacts mechanism to include the field building mechanism of Marti et al. (2023). As interviews progressed, the coding adapted iteratively. These iterations allowed a hierarchical set of new themes to emerge, capturing the key issues and concepts necessary to examine to answer the research questions.

Figure 1: Illustration of Categorisation of Key Themes



Additionally, 10 unstructured, informal conversations with experts from institutions such as asset managers, asset owners, and regulators, were conducted over the same time period as the interviews. Due to the opaque nature of sovereign debt stewardship, particularly the practice of engaging with sovereigns, these conversations were used to identify institutions, individuals, and

case studies, and to act as a sense check to ensure major themes were being identified correctly. Although the responses were not recorded or coded and are not formalised in this research paper, the contributions from these conversations were valuable in directing the research. This mix of data sources and methodologies form a triangulation approach, enhancing the validity and mitigating potential limitations of the interview data alone (Denzin 1970).

4. Results and Discussion

Our analysis suggests that a diverse range of sovereign bond engagement activity is taking place, and the practice is becoming increasingly adopted by investors (Amundi 2021; House and Row 2020; LGIM 2022). The causes pursued by investor coalitions include, but are not limited to, deforestation, financing of fossil fuels such as coal, green bond issuances, net zero policy, accession to weapons conventions, pandemic responses, and electoral integrity. Additionally, Two major, collaborative, public sovereign engagement campaigns targeting specific sustainability issues have emerged in recent years. The first of such is the Investor Policy Dialogue on Deforestation (IPDD). Established in 2020, the IPDD began by targeting Brazil as a deforestation hotspot, before adding workstreams to target Indonesia as another hotspot, as well as ‘consumer countries’, defined as the US, UK, EU, and China. The second was established by UNPRI in 2023, and aims to provide climate policy support to the Australian Government (UNPRI 2024). Whilst these two represent more high-profile bondholder coalitions, other collaborative activities include joint letters sent by investors to government officials. For example, in 2023, more than 400 institutions co-signed an open letter to the then UK Prime Minister Rishi Sunak laying out concerns over perceived weakening of net zero targets by his administration (Curtis-Moss et al. 2023).

Despite these high profile efforts to engage with nations through sovereign debt investment, examples of reported engagement with governments, especially engagement coalitions, are sparse, reflecting the nascency of this practice and the barriers faced in its execution. To this end, we engaged with interviewees to investigate the extent to which sovereign debt engagement can create impact, exploring key themes of ‘cost of capital and liquidity’, ‘ecosystem of engagement’, ‘barriers to engagement’, and ‘ethics’ (See Table 1). We will deep dive into these themes in turn.

Table 1: Summary of key findings

Note that findings listed in the table are those with a reasonable degree of validity, that were affirmed by multiple interviewees and were not contradicted by any unless stated.

Cost of Capital and Liquidity	Ecosystem of Engagement	Barriers to Engagement	Ethics
Impact through capital allocation is possible but difficult as many smaller countries have restricted access to capital markets and it can be impractical or expensive to buy their debt ¹	Investors routinely engage with sovereigns, including on environmental policy	Lack of expertise on the government side (tend to be experts in either finance or climate, not both)	There is a risk of infringing on a country's sovereignty when engaging
SLBs are liked by investors and in demand	Syndicating banks have a role in facilitating engagements	Government structures are difficult to navigate; multiple ministries are relevant but don't communicate between themselves effectively	Engagement with a domestic government circumvents some concerns around sovereignty infringement
Step-up structure is preferred by investors, but step-down preferred by governments ²	ESG and Climate are becoming a larger part of the conversation and more investors are expected to engage with sovereigns on these topics in the future	Changes in Government (and policy) can derail or delay discussions	Divestment can be detrimental to the nation's population
SLBs are difficult for countries to issue due to the need for ministries to align and agree	Target governments are wide-ranging and include all sizes, developing and developed, autocratic and democratic	No real escalation strategies, other than different forms of engagement	Engaging investors don't want to be seen as lobbying
Full divestment is rarely a plausible strategy due to index weights and mandates	Largest investors have access right to the top, smaller struggle ¹	Developed market governments can have little incentive to engage with investors, as they face little/no difficulty issuing	No real escalation strategies, other than different forms of engagement
Expectation that if one Developed Market economy issues an SLB, others might follow, and this could be impactful in global transition efforts ³	Secretariat role important	Additionality and causality are hard to prove (more so than in corporate debt)	
	Common targets include Treasury offices and environmental departments (and various other ministries), as well as regulators	Engagements are time and resource-intensive	
		Lack of data	

¹Also a barrier

²The majority of investor interviewees preferred step-up, whilst a small number had no preference

³This observation was made proactively by two interviewees, and subsequently affirmed by each of the three others asked

4.1 Cost of Capital and Liquidity

Interviewees talked about driving influence through altering the cost of capital and access to liquidity in tandem. The most radical form of these mechanisms - divestment - was seen as logistically difficult, owing to strict sovereign debt-holding investment mandates and a lack of substitute investments. Unlike corporate debt investment, sovereign debt is more often held in large quantities for liability matching, liquidity purposes, or risk diversification (Martinez et al. 2022), which creates an inelastic investment landscape where external factors, including changes in bond price, can have little effect on demand (Eren et al. 2023). This suggests investors have less of the 'utilitarian power' identified by salience theory as a key source of influence (Mitchell et al. 1997); in other words, they have lessened ability to use their financial resources as leverage.

Where divestment is possible, only a small impact on price or cost of capital could be created, if any, as is considered the case in other asset classes (Berk and van Binsbergen 2021). Interviewees were less dubious about the power of these mechanisms for smaller economies, yet many investors are not interested in the debt of these sovereigns to begin with due to the typically higher risk and higher transaction costs. That being said, the impact of cost of capital cannot be altering the cost of capital cannot be ruled out completely, as Interview 17 noted that even very small impacts on the cost of capital can be critical for nations due to a strong reliance on debt for financing (Interview 17, NGO, 2024).

Interviewees were specifically prompted for their views on sovereign labelled bonds to explore how commonly deployed green finance mechanisms unfold in the sovereign debt context. Opinions on UoP bonds varied, with interviewees citing well-documented concerns over the lack of additionality and greenwashing (Bhutta et al. 2022). However, most agreed that even if the projects themselves are not additional, the strong demand for UoP bonds sends a positive signal to the market and to governments that highlights the importance of environmental action (Arévalo et al. 2024). This mirrors findings from the corporate debt asset class, which suggests that positive impact is indirectly generating by creating market awareness and confidence in green investment (Flammer 2018; Shi et al. 2023). Consensus was also clear that the visibility, ambition, and accountability frameworks for UoP issuances have been improving over time.

Contrastingly, interviewees' opinions about the potential of SLBs were overwhelmingly positive, with most hoping for the scaling of SLBs in both issuance numbers and volume. Interviewees pointed to the ability of SLBs to be tied to holistic transition plans (rather than individual projects as is the case for UoP bonds) (Vulturius et al. 2022). By embedding long-term environmental policy into SPTs, investors gain better foresight of future risks. Interview 17 also suggested that SLBs, even those where SPTs are unambitious, create the desired outcome of mandated reporting and disclosures as the result of satisfying SLB requirements (Interview 17, NGO, 2024). Step-up structures are more appealing to investors, as the alternative step-down clause presents a more difficult pricing task. For step-down SLBs, investors face the potential for a financial loss in the future (if the country successfully hits an SPT) and therefore require financial compensation

upfront. However, early evidence and research suggests this financial compensation is present in current corporate issuances (Interview 17, NGO, 2024; Erlandsson et al. 2022).

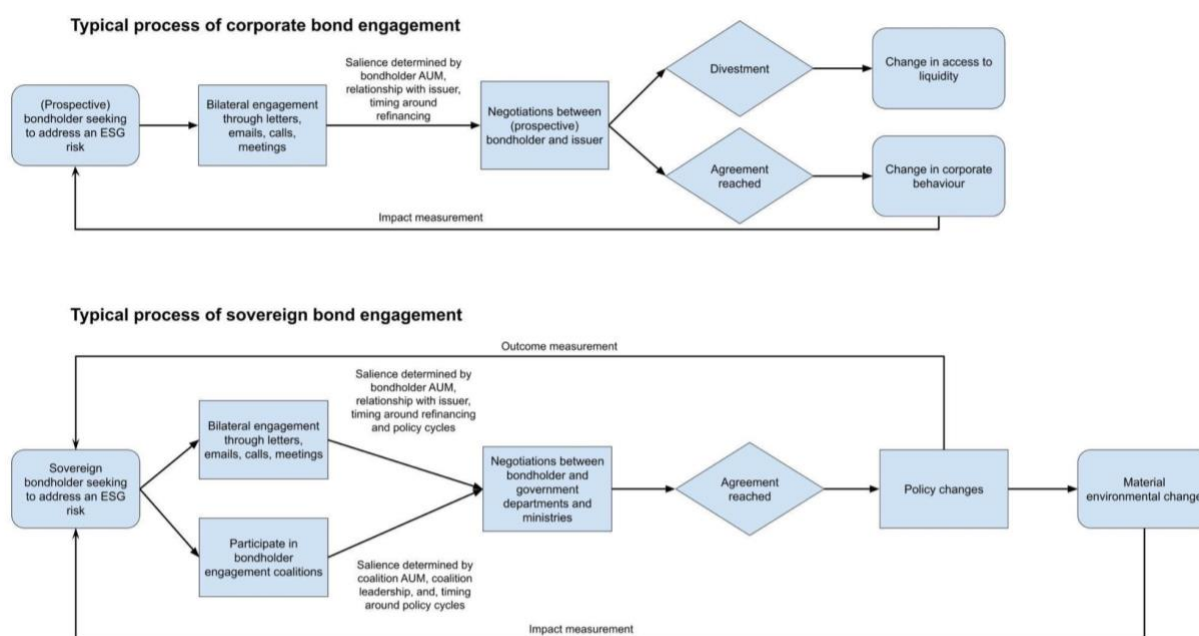
Notwithstanding optimism from interviewees that SLBs can be effective in generating impact through altering the cost of capital, interviewees cited barriers in scaling SLB issuance. First, the reputational risks and political risks of missed KPIs are considered considerable (Interview 2, Bank, 2023; Interview 7, Asset Manager, 2023; Interview 15, Asset Owner, 2024). The costs associated for governments to coordinate multiple ministries to agree on the bond structure and SPTs are also significant. To this end, informants revealed that Debt Management Offices of two major, Developed Market countries had flat-out rejected the prospect of near-term SLB issuance, although cautious optimism was prevalent for future shifts in this policy. Multiple interviewees suggested that if one large economy were to issue an SLB, it could act as a market leader, spurring others to follow suit (Interview 7, Asset Manager, 2023; Interview 17, NGO, 2024; Interview 20, Bank, 2024). Interviewees were tentatively positive on the current sovereign SLB issuances of Chile and Uruguay, the former having a step-up coupon, the latter both a step-up and step-down. The Slovenian issuance occurred after all interviews had concluded.

Another concern raised was that of the regulatory environment, as in the EU, under current Sustainable Finance Disclosure Regulation (SFDR) rules, unless the country issuing the debt was itself a ‘sustainable’ investment, a portfolio invested in its debt cannot be marketed as Article 8 or 9, considered a key marketing label for many funds (Interview 7, Asset Manager, 2023). This is a difficult claim to make given that, as of 2024, no country is 1.5C aligned (Climate Action Tracker 2024). Even SLBs with an environment-linked target would, under current legislation, fail to be considered ‘sustainable’. This highlights the importance of the regulatory environment for stewardship practices; investors are motivated to purchase what they consider to be impactful assets but cannot due to regulations. Moreover, in light of the lack of national-level policies and targets that are rigorously aligned with the Paris Agreement, investors find it challenging to establish environmentally credible metrics for sovereign SLBs. The difficulty of selecting KPIs was also noted, but the publication of the International Capital Market Association’s (ICMA)

Sustainability-Linked Bonds Principles (2024) was considered a positive step towards standardisation.

4.2 Engagement

Figure 2. Divergent bondholder engagement processes of corporate and sovereign bond engagement



4.2.1 Ecosystem of Engagement

All interviewees representing investment institutions confirmed they engage regularly with governments whose bonds they have invested in. Investors engage across almost the full range of countries that issue debt, from the smallest island states to the major, global economies. Investors were generally reluctant to disclose specific countries of engagement, but over the course of the interviews it became clear that even some of the very largest economies, such as the US, Germany, France, India, and the United Kingdom, are routinely targeted for engagement. No interviewee cited China as an engagement target. A significant pattern was the tendency for asset managers

and owners, particularly pension funds or those representing pension funds, to engage heavily with the government of the country they are based, which represents their ultimate beneficiaries.

Interviewees were vague about the topic, processes, and targets of their sovereign engagement campaigns. That said, interviewees unanimously cited that sovereign adoption of green finance, including the financial structure of labelled bonds, the scope and ambition of green finance frameworks, and the management of UoP proceeds, are common topics of engagement. SLBs were discussed less in relation to targets given their nascency in this asset class; most engagements around these were general calls for issuance. Environment policies such as deforestation commitments and measures, fossil fuel financing, and transition plans are regular themes for engagements, though interviewees did not elaborate on if and whether time-bound, quantitative targets are set in these dialogues.

The importance of these dialogues lies in their potential to address macro-level physical and transition risks associated with climate change. As previously reviewed, the literature suggests that sovereign bond spreads are sensitive to such risks (Bingler 2022). The presence of investor engagement on critical climate issues reflects a broader strategy to influence sovereign policies that could mitigate these risks. For example, stronger deforestation policies can reduce the risk of environmental degradation and its associated economic impacts (Motel et al. 2009), while comprehensive transition plans can help countries manage the economic shifts needed to meet climate goals (Dikau et al. 2022). Thus, engagement campaigns targeting these policies are not only seen as risk management tools for specific investment portfolios, but also as mechanisms to drive broader impact in mitigating climate-related threats that affect the stability of financial and economic systems.

Unsurprisingly, the landscape of investor engagement is uneven and some financial institutions engage more proactively than others. Our analysis reveals that certain investors act as ‘nodal players’ who take leadership roles across multiple engagement campaigns, and actively publish white papers and participate in consultation processes to set the agenda for investor environmental expectations of sovereign issuers. These nodal players tend to be large institutions with a high

proportion of pension fund and mutual fund clients owing to their longer-term investment horizon (Amalric 2006). Nodal players also tended to be European-headquartered, aligning with the trend for European investors to be more active on sustainability (Cowlrick 2024).

Beyond individual institutional investors, we also found that UNPRI plays an important secretariat role in providing administrative, organisation, and research support for multiple engagement coalitions. Interviewees pointed to the particular importance of secretariats for sovereign engagements; not only do they facilitate more efficient operations, but they have also importantly exerted indirect influence through field building (Marti et al. 2023). As a major, multilateral organisation, the UNPRI also provides a level of organisational legitimacy, which can boost investor salience (Mitchell et al. 1997). Interviewees representing asset management institutions involved in the IPDD commended the Tropical Forest Alliance, the secretariat for the coalition, as they provided crucial local knowledge and contacts that were advantageous for facilitating effective dialogue. Similarly, coalition members offer a depth of geographical or sectoral knowledge, as well as networks, which can drive more well-informed and far-reaching engagement. In describing their attempts to have impact, investors also pointed to membership and support for groups that produce research and tools for system-level change; groups such as the Transition Pathway Taskforce (created by the UK Government to aid disclosure requirements and regulation), ASCOR (a database to assess sovereign climate action), and the Institutional Investors Group on Climate Change (a collaborative initiative to address investor climate risk).

Interestingly, sovereign wealth funds (SWFs) - a type of universal owner that, collectively, hold more than \$12trn in assets (GlobalSWF 2024) - have not been openly involved in environmentally- or socially-driven sovereign debt engagement strategies. This is despite the absence of laws or regulations prohibiting SWFs from conducting sovereign engagement. On the surface, this appears to be a missed potential of the leverage SWF capital might have in driving positive outcomes (Junghanns and Kornerts 2022), but Interview 12 explained this owes primarily to the sensitive political positions of SWF as state-owned institutions (Interview 12, SWF, 2024); engagement would be akin to sovereign-to-sovereign diplomacy that has previously attracted criticisms of disrupting financial markets (Truman 2007).

Desk-based analysis of industry publications also suggested that Debt Capital Markets (DCM) functions of syndicating banks could have a role in the facilitation of engagements, given their role as advisors in the structuring and sale of bond issuances. Our DCM interviewees concurred and discussed their institutions' activities in this space, such as hosting a 'speed dating-style' conference for sovereigns and their investors to discuss labelled bond issuances (Interview 20, Bank, 2024; Interview 2, Bank, 2023). Pre-issuance engagement was seen by respondents as particularly powerful, given the issuer incentive to listen and cooperate to lower the cost of their debt issuance. However, respondents also noted that it is difficult for investors to influence or insert covenants on non-labelled bonds, because bond structuring typically happens before investors are involved. Moreover, when there is healthy, stable demand for debt globally, sovereign issuers often have little incentive to change the structure based on a single investor's asks.

Across the different types of investors, sustainability-related financial risk management is the primary motivation to engage (all Interviews); this aligns with the findings of Yamahaki and Marchewitz (2023). Whilst interviewees were sceptical as to whether successful engagements could lead to financial payoffs as some claim can occur when engaging with companies (Dimson et al. 2015; Bauer et al. 2021; Hoepner et al. 2018), engagement outcomes such as increased environmental information availability were seen as being material in the risk-profiling of countries, in the same way that financially material information is valuable to investors (Feng and Wu 2021; Flammer et al. 2021). Interviewee 1 described their role as being 'a detective', looking for financially material environmental information in the same way they search for other risk factors (Interview 1, Asset Manager, 2023). This detective work included engagement in the form of requests for information where such information was unavailable, but considered attainable. Interviewees also commonly cited systemic risk mitigation, an incentive to contribute to constructing a sustainable economy, reputational gain, and client desire for impact as motivations (Interview 7, Asset Manager, 2023), as found by Bauer et al. (2021).

The initial point of contact for the majority of engagements is usually the debt management office of the country, the body responsible for debt issuances and investor relations. Treasury offices, regulatory bodies, and departments responsible for environmental matters were also cited as avenues to seek a voice, as are government officials and elected policymakers. Interviewees claimed that engagement takes place throughout the entire issuance cycle, though sovereigns are more inclined to enter into productive dialogues when they are seeking refinancing. Roadshows, organised by sovereign issuers, were cited to be a common juncture for dialogue, particularly around labelled bond structuring. Letters, both public and private, and meetings are also common methods by which investors enact their engagement. Private, bilateral engagements remain the most common strategy, where individual investment institutions regularly discuss policy and regulation with government officials, and request disclosures.

4.2.2 Barriers

From our document analysis, it is clear that sovereign engagement is neither practised as widely, nor reported on with as much comprehensiveness and consistency, as corporate engagement. Interviewees attributed this to three main barriers they consistently face when engaging with sovereigns. None of the barriers discussed were considered insurmountable, and respondents consistently opined that they expect investors to scale up their sovereign engagement efforts in the future.

Of the barriers unique to the sovereign asset class, the structure of governments was the most commonly raised. Coordination with multiple government ministries is logistically complex due to overlapping mandates, differing jurisdictions, and varying levels of expertise. Each ministry may require a tailored approach, and alignment between them often involves extensive internal discussions and iterative policy drafting. As Interviewee 9 put it, ‘governments are bad at talking to themselves’ (Interview 9, Multilateral, 2023). Individual country’s unique political and economic configurations are also a unique barrier to scaling up sovereign bond engagement. Rather than following a formulaic engagement strategy or framework, investors of sovereign debt

must plan a bespoke strategy for each country and each sustainability issue to tailor to countries' unique political and bureaucratic processes. This, in turn, increases the cost of engagement. Interestingly, change of government is not considered a barrier to effective engagement by many, as interviewees explained that most engagement efforts are undertaken with non-elected officials, and those that are undertaken with elected officials are not greatly impacted by changes in personnel or government mandate, as new officials are often open to ambitious environmental goals. That being said, where environmental concerns are politicised, the anticipation of government change can hinder engagement efforts.

Gaining access to government officials is also a unique barrier, although institutional investors with greater assets under management (AUM) appear to gain easier access with more senior government representatives, as is the case for corporates, a finding that corroborates Kruitwagen et al. (2017). Investors cited the size of the country and political-economic factors as key determinants of access. For example, the US and Germany enjoy high demand for their debt and as a result, their governments have less incentive to respond to investor demands on environmental and social matters. Respondents generally considered AUM to be correlated with the ability to create impact across all mechanisms.

The final barrier unique to sovereign engagement is the aforementioned inability to divest. A credible threat to divest is integral to an effective engagement and escalation plan. In the context of corporate engagement, failure to make progress through sustained engagement can be met with escalation through alternative channels, that often eventuates in divestment (Considine et al. 2023). In contrast, escalation is a much less powerful lever for sovereign debt investors as investors cannot deploy the threat of divestment as an 'ultimatum' for sovereigns to acquiesce to their requests (Admati and Pfleiderer 2009). Indeed, interviewees mentioned that the only 'escalation' strategy they can deploy is to request more meetings with different departments, at most escalating the meetings to more senior officials.

In addition to these challenges unique to sovereign debt engagement, investors are also subjected to general challenges to debt engagement, notably related to the difficulty of forming cohesive

engagement coalitions with other like-minded investors to aggregate investor ‘voice’ to pressure issuers to drive change, as well as the difficulty in measuring the impact of engagement campaigns so as to communicate and justify resource dedicated to engagement to beneficiaries. Whilst it may be impossible to definitively prove causality and additionality at a sovereign level, one interviewee proposed a probabilistic approach (aligning with the works of Harris (2021) and Carter et al. (2021)), that evaluates the circumstances in which actions are more or less likely to be additional, thereby circumventing the need to prove causality of individual actions (Interview 13, Asset Manager, 2023).

While a lack of data and reporting are consistently considered barriers to effective engagement efforts across asset classes (Fukami et al. 2022), both are particularly disparate at a country level, which hinders effectiveness in prioritising engagement targets and measuring successes. In practice, shareholder engagement has enjoyed a more sophisticated data provision and professional services infrastructure compared to what is available for debt holders (Gomtsian 2022). For sovereign debt holders, third-party research into sovereign sustainability performance is limited (Macfeely 2019). That said, there are clear indications of progression in this area such as the ASCOR project, which aims to provide a database to enable assessment of climate action and alignment of sovereign bond issuers. Such tools may begin to bridge the data gap for sovereign debt engagement in the future.

4.2.3 Ethics

Views on the ethical concerns involved in engaging sovereign governments ranged considerably. Those who espoused greater concern talked about the fine line between lobbying and engagement, and how private investors should not, in their minds, be responsible for finding the distinction. Interview 12, when asked specifically about the distinction between engagement and lobbying, responded ‘It’s a framing and narrative difference more than anything else’ (Interview 12, SWF, 2023). Concerns were centred around the legitimacy of developed market investors interfering with developing market governments, a dynamic implicitly linked to power imbalances reflective of Global North/ South relations and colonial histories, even if not explicitly named. Others did

not raise concerns around ethics and were unperturbed by potential risks when asked. Some interviewees saw their engagements as being limited to requests (and support) for adherence to current policy (for example, commitment to the Paris Agreement, or IPDD's support for Brazil to adhere to its deforestation policies), rather than attempts to impose policy changes, and therefore incapable of infringing on sovereignty. Others pointed to times their institution had been proactively approached by governments requesting dialogue on the financial materiality of their environmental policies. The importance of issuers receiving feedback from investors regarding the financial implications of environmental policies was highlighted several times.

In cases where investors took a more interventionist stance, such as the German bank Bank für Kirche und Caritas (BKC) engagement with the Namibian Government (a former German colony) on accession to the UN Biological Weapons Convention, some investors sought justification on the basis that corporate lobbying for 'positive societal outcomes' is at least better than historic practices, where debt crises have been exacerbated by investor influence (Paddock 2002). Who decides whether an outcome is positive, and for whom, remains contentious. The question, therefore, is who, and on what topics, investors are attempting to influence in private, and to what political-economic ends for the developing economy. Interview 10 critiqued: 'fiduciary duty should not trump democracy', and suggested that perhaps the full potential of sovereign debt engagement should be used reservedly to protect the democratic rights of sovereign nations (Interview 10, Academic, 2023). While investor interviewees tended to suggest a desire for transparency, non-investor interviewees suggested investors prefer their activities in this space to remain under the radar and thus unaccountable. The aforementioned opacity over engagement targets and topics lends some weight to this scepticism. The ethics of divestment, with the intent of increasing a nation's cost of capital, are also questionable, as by definition government debt is issued to finance policy to the benefit of the citizenry.

Our paper asks whether investors can create an impact using their sovereign debt portfolios. Busch et al. (2021) call for the consideration of both positive and negative externalities in efforts to create impact. In this case, infringement of democracy and sovereignty appears to be a unique negative externality of sovereign debt engagement. Quantifying the negative externality created by

attempting to engage foreign sovereign governments is reductionist and not constructive, and so the commonly-used cost-benefit analysis (Layard and Glaister 1994) is unsuitable here. As any attempt to influence a change in policy in a foreign country likely necessitates an unquantifiable negative externality, it is difficult for investors to assess the viability and legitimacy of their actions. Even requests for environmental disclosures can be problematic due to the inherently neoliberal nature of investors attempting to make developing markets more ‘legible’ (Scott 1998), given the assumption of efficient free-market theories (Christophers 2017). These concerns affect the salience of the investor seeking impact, as their societal legitimacy in seeking to influence the sovereign is questionable (Mitchell et al. 1997).

Investors are not best placed to determine the limits in this area, and they are not experts in the determinations of democratic agency, which suggests a need for external guidance and further research to guide practice. To this end, we provide Table 2, with recommendations for investors undertaking sovereign engagements.

Table 2: Recommended best practices for ethical sovereign engagement

Recommendation	Reasoning
Incorporate political and cultural adaptation	Investors should tailor their engagement strategies to the unique political and cultural environments of target countries, recognizing that acceptable practices vary significantly across different sovereign contexts.
Establish clear ethical frameworks	Adopt transparent, externally validated ethical guidelines that clarify boundaries between constructive engagement and inappropriate lobbying or interference.
Develop multi-stakeholder working groups	Investors should work with a variety of stakeholders to continually contribute towards improving best practice.
Avoid divestment as primary leverage	Investors should not treat the threat of divestment as leverage when engaging with sovereigns, and should consider the potential adverse effects on citizens.

4.2.4 Domestic Engagement

Practically speaking, these results show that engagement with sovereigns is clearly a strategy being used by investors, yet views appear disparate as to the limits of acceptable targets, given concerns around sovereignty. When an institutional investor, domiciled in the same country as its beneficiaries, engages with the government of that same country, some of the concerns around sovereignty may be circumvented, since both investor and government ultimately serve the same beneficiaries (assuming a homogeneous set of beneficiaries such as a public pension fund). From a theoretical standpoint, this practice can be represented as one agent acting for a subset of another agent's principals. This practical extension of principal-agent theory, typically known as a Multi-Agent Principal-Agent problem (note that this only differs from the standard principal-agent theory when the agents interact, as is the case here (Lockwood 2000)), is less a problem relating to marginal costs, and more to the relationship dynamic between agents, and their incentives to work together. In this relationship, with both investor and government mandated to serve the best interests of a group of individuals, dialogue (theoretically) benefits all parties. In a relationship of investor and foreign government, the principals differ; the former serves a group of beneficiaries, the latter their own populace. Dialogue can remain beneficial to both agents, but the theoretical model is of two distinct principal-agent problems.

This type of engagement is common (at least, more commonly publicised), particularly with pension funds (Interview 5, Asset Manager, 2023). Investors are likely to find it generally easier to engage with the government of domicile; cultural and communication barriers are likely low to non-existent (Dimson et al. 2023). Outcomes of successful engagements may be more impactful to the beneficiaries; by engaging on issues relevant to the social well-being of clients, such as local flooding risk and water quality, the beneficiary benefits from both the lowered financial risk of their debt holding (assuming this relationship holds) and utility derived from the engagement outcome. As such, the fiduciary duty obligation is dually satisfied (Interview 19, Asset Owner, 2024). The case of a public pension fund can serve as a paradigm here; many will have obligations to hold liability-driven investments and very low-risk instruments, for which government bonds are commonly used. Large holdings of their government's debt increases the importance to

investors of engaging on factors that can lower risk, and could also increase influence, assuming the aforementioned relationship holds.

5. Conclusion

This paper provides the first-of-its-kind empirical evidence on the emerging phenomenon of universal owner stewardship of sovereign debt portfolios. We find that investors have the potential to contribute to positive, real-world impact through their stewardship of sovereign debt portfolios (RQ1), through each of the mechanisms analysed (RQ2). The cost of capital mechanism can be utilised by purchasing, and pushing for further issuances of, labelled bonds, most powerfully SLBs. These products can provide additional indirect impact through the signalling mechanism (Marti et al. 2023). Consistent with prior literature, we find that investors are routinely utilising the engagement mechanism to pursue sustainability outcomes (Yamahaki and Marchewitz 2023). These mechanisms can be powerful and impactful as outcomes address more systemic issues than corporate engagement.

However, we find evidence for additional barriers that are unique to the sovereign debt asset class, namely strict mandates over sovereign debt-holding and a lack of substitute investments, as well as ethical concerns over sovereign infringement (RQ3). These nuances may render sovereign debt engagement unscalable, but we also note that scalability is perhaps of lower importance in this specific asset class, as strategic policy changes in a high emitter country, or a biodiversity hotspot, could bring significant benefit to the global climate and environmental agenda.

To navigate these sensitivities, we recommend that investors create internal sovereign engagement frameworks which clearly define objectives, permissible boundaries, and escalation paths. Such frameworks should take into account adaptation of approaches for the specific political and cultural nuances involved with each potential target country. Policymakers could play a critical role by encouraging or requiring investors to adopt such frameworks, potentially through regulations that set standards for what constitutes ethical engagement in sovereign debt markets. To further systematise this approach, we suggest the continued development of cross-industry working

groups or formal guidance from standard-setting bodies to codify best practices for sovereign engagement.

Our findings build on universal ownership theory, bringing empirical evidence that supports its theoretical implications. We further advance investor impact frameworks by incorporating the previously overlooked sovereign debt asset class. Additionally, we explore how salience theory operates differently in sovereign contexts, where societal legitimacy and political complexity complicate investor influence relative to corporate settings.

However, further research is due in three key directions. First, whilst this study has focussed on the investor's perspective, further study could also focus on how governments react to investor engagement and subsequent implications on financial and environmental policy changes (or inertia). This would be particularly relevant in studying the continued potential to drive change through sovereign bond engagement in the present climate of political pushback against ESG (Papazian and Westphal 2024).

Second, the 'professionalisation' of sovereign stewardship could be an important avenue of future research; as this practice scales and becomes more commonplace, there may be the expansion of this section of the ecosystem with more specialised professional stewardship services providers and consultants, as has been the case with corporate stewardship (Sipiczki 2022). Whilst this may increase and diversify the scope and opportunities for impact, the risks discussed in this paper, most notably the concerns over infringement on sovereignty, may be exacerbated.

Third, while we do find evidence for UOs to create positive environmental impact through their sovereign debt portfolios, we also find that causality and additionality are difficult to prove, and measurement of the efficacy of investor action is therefore challenging. Further research is needed into this critical area, both to justify action, and to ensure the actions UOs take are effective in generating positive impact.

Declaration of Interest Statement

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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Appendices

*Appendix A: Details of Interviewees (*Interviewee 12 Location Redacted to Retain Confidentiality)*

Number Assigned	Month/Year of Interview	Sector	Location
1	07/23	Asset Manager	UK
2	07/23	Bank	UK
3	07/23	Asset Manager	US
4	07/23	Asset Manager	Netherlands
5	07/23	Asset Manager	UK
6	07/23	Asset Manager	France
7	08/23	Asset Manager	UK
8	09/23	NGO	Switzerland
9	09/23	Multilateral	Australia
10	10/23	Academia	Sweden
11	11/23	Regulator	UK
12	12/23	Sovereign Wealth Fund	*
13	12/23	Asset Manager	UK
14	12/23	Asset Manager	UK
15	03/24	Asset Owner	Australia
16	04/24	NGO	Switzerland
17	05/24	NGO	UK
18	05/24	Asset Owner	UK
19	06/24	Asset Owner	UK
20	07/24	Bank	UK

Example Interview Guide

*Note that the following is a question bank that was tailored before each interview, as some topics were not relevant for all institutions. As the interviews were semi-structured and exploratory, typically only 5-10 questions were asked (plus follow-up questions), with open-ended answers often covering multiple topics.

1. Background of the interviewee and organisation represented

- 1.1 Please describe the purpose of your organisation and experience in relation to investor engagement, stewardship and active ownership.
- 1.2 Please describe your role and experience in relation to investor engagement, stewardship and active ownership.
- 1.3 Please describe the engagement strategy(ies) your organisation has adopted, both generally and with specific reference to sovereign debt.
- 1.4 Does your organisation engage with domestic regulators (for example, on stewardship codes) and if so, how? On what topics?
- 1.5 Please provide an overview of your organisations' past sovereign debt engagement campaigns (countries targeted, membership of coalitions, aims, successes etc.).

2 Theories of Change and Strategies

- 2.2 Please explain your organisation's theory of change in designing engagement and stewardship policies, and any differences in the approaches between asset classes.
- 2.3 Please explain the process of designing engagement and stewardship policies, choosing engagement foci and determining engagement targets in sovereign debt.
- 2.4 How does your engagement strategy design differ across geographies and sectors?
- 2.5 What are the differences in the engagement strategies employed between equity, corporate debt, and sovereign debt asset classes?
- 2.6 What scope does your organisation have to influence or insert sovereign debt covenants pre-issue?
- 2.7 How does influence level differ over the financing cycle?
- 2.8 What hurdles do you face when engaging with countries in sovereign debt? (legal, regulatory, communication, fixed time horizons, political etc.)
- 2.9 What hurdles do you face as a debt engager that you do not face as an equity engager (if any, and if appropriate)?
- 2.10 Does your organisation knowledge-share with other investors? If so, how, and on what topics?

3 Investor Coalitions (If Applicable)

- 3.1 Why did your organisation choose to participate in various investor coalitions? If your organisation did not choose to participate, why not?
- 3.2 What is your organisation's role in the coalition?
- 3.3 How would you describe the effectiveness of the coalition?
- 3.4 What is the asset class composition of the investors in the coalition?
- 3.5 If multiple asset classes are represented, does this provide benefits (or challenges) to the coalition's effectiveness?

- 3.6 What are the factors which make the coalition(s) effective?
- 3.7 What have been the key challenges to effective outcomes in the initiative(s)?

4 Impact Measurement and Future Directions

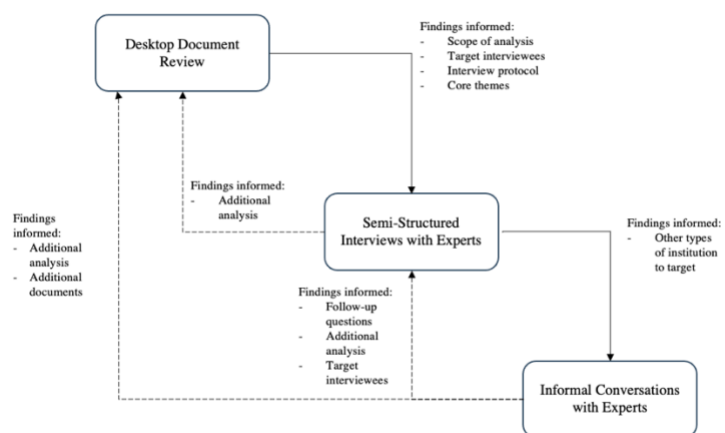
- 4.1 What does your organisation consider as successful outcomes from your sovereign engagement activities?
- 4.2 How does your organisation measure the impact of your engagement strategies?
- 4.3 What datasets or data points, if any, does your organisation use to measure the impact of your engagement strategies?
- 4.4 How do you think sovereign debt engagement is being utilised across the investment industry?
- 4.5 What do you think are the next steps to take to enhance the sustainability impact of investor engagement and stewardship in sovereign debt?

Appendix C: Table of Case Studies of Investor Engagement

Engager	Engaged Government	Topic	Reference
32 Investors and Financial Institutions	UK	Net Zero Policy	Pfeiffer et al. (2023)
81 Investment Institutions and Businesses	UK	Setting an NDC	Molho et al. (2020)
Amundi	Chile	Social Bond Issuance	Amundi (2021)
Amundi	Belize	Blue Bond Structuring	Amundi (2021)
Amundi	Australia, Kazakhstan, Turkey	Thermal Coal Policy	Amundi (2024)
APG	South Korea	Rights to file non-binding proposals	Marchant (2023)
Aviva	21 Countries	Climate Action	Aviva (2023)
BKC and SfC	Namibia	UN Biological Weapons Convention	SfC (2022)
Coalition of UK Asset Owners	UK	Combustion Vehicle Phase-Out	Elwell et al. (2021b)
Coalition of UK Asset Owners	UK	Climate Action	Pfeiffer et al. (2022)
Coalition of UK Investment Institutions	UK	Climate Action	Elwell et al. (2021a)
Coalition of UK Investment Institutions	UK	Green Bond Issuance	Kinnersley et al. (2020)
Colchester	Numerous	Green Bond Issuance	Colchester (2020)
IPDD Coalition	Brazil	Deforestation	UNPRI (2023)
IPDD Coalition	Indonesia	Deforestation	UNPRI (2023)
IPDD Coalition	'Consumer Countries'	Deforestation	UNPRI (2023)
LGIM	Japan and South Korea	Uptake of ISSB Standards	LGIM (2024)
NinetyOne	Thailand, Peru	Climate Action	Eerdmans (2020)
Payden and Rygel	Benin	Electoral Reform	FRC (2022)
Payden and Rygel	Ukraine	Anti-Corruption	FRC (2022)
Payden and Rygel	Guatemala	Social bond structuring	FRC (2022)

PRI and 27 Investment Institutions	Australia	Climate Action	UNPRI (2024)
PRI and Investor Group	EU	Reporting Requirements	Reynolds (2021)

Appendix D: *Graphic of Interconnection between Sources of Information*



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