Degroof Petercam | Asset Management

October 2017 ▪ degroofpetercam.com

Sustainability Ranking

Emerging Countries

Sustainability Ranking - EMERGING countries

Half-yearly report – October 2017

Emerging economies are generally considered to have high potential, notably due to their young and growing population. Although most are not always seen as having sustainability or recognised democratic processes, integrating sustainability criteria into the management of a portfolio investing in these countries can be of real added value.

A pioneer in sustainability analysis for emerging economies

Contrary to popular belief, integrating sustainable factors to the analysis of emerging market issuers is compatible with, and adds value to a sovereign debt portfolio. Indeed, this helps to provide a holistic view by focusing on the long-term perspectives for key institutions that are vital for the functioning and development of markets. The analysis is complementary to credit rating by mapping the risk situation in terms of sustainability and by providing valuable additional insights to sustainability-oriented investors.

The world population currently stands at 7 billion, and according to United Nations statistics, this number is projected to grow to 9.5 billion by 2050. This increase will be particularly prevalent in emerging economies, which are currently confronted with overpopulation and a lack of natural resources. The demographic challenge is not only related to energy and ecology challenges, it also entails a challenge for the entire economy.

The uprisings in the Middle East and large migration moves have, and continue to highlight the importance of the democracy process, the guarantee of civil rights and freedoms. Inequalities within a population where high unemployment exists, in particular among the youth, create an insecure and unstable climate, which may ultimately lead to population rebellion.

Therefore, analysis of the viability of an emerging economy should include the sustainability of the country in terms of transparency and democratic values, as well as the economy, environment, demographics, health care, wealth distribution and education.
The experience Degroof Petercam Asset Management (DPAM) has gained in the sustainability analysis of OECD member has led to a sustainability model designed for emerging markets which incorporates the specifics of these countries.

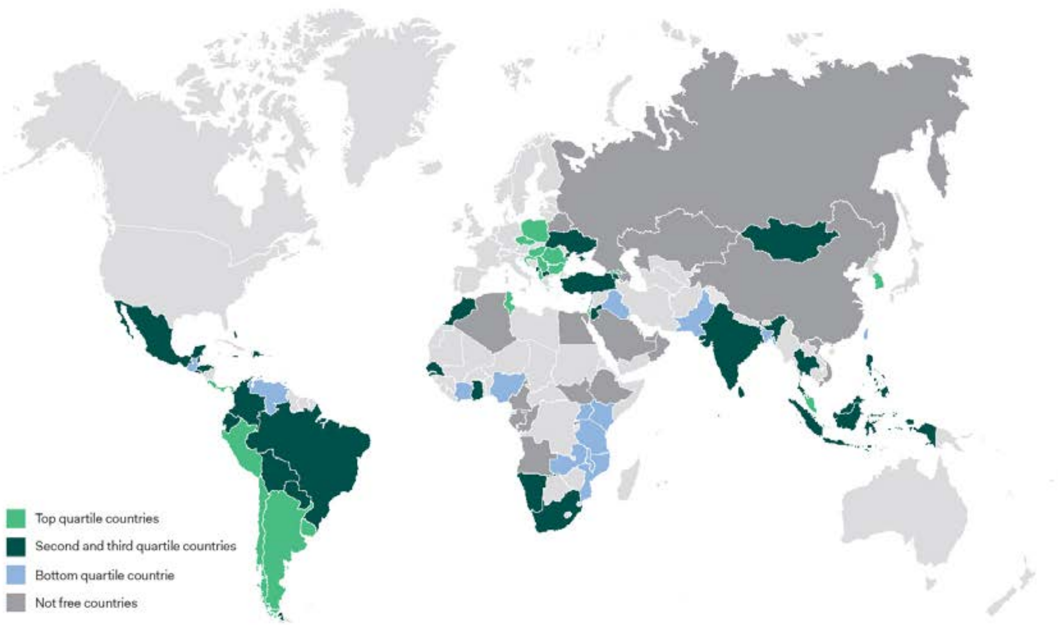
Sustainability ranking – October 2017

The starting universe is composed of 86 countries, mainly defined by the existence of a local or hard currency sovereign debt market. The sustainability ranking enables the identification of the countries which have fully integrated global challenges into the development their medium-term objectives.

This complements the information gathered from credit rating, which is traditionally used to assess the short term valuation of sovereign debt.

Integrating long-term perspectives, which have no direct impact on the current valuation of an investment, but will influence medium and long-term performance, allows to highlight those countries that are expected to outperform and therefore to be solvent.

Emerging Markets, March 2017



#	Country	H2 17	H1 17
1	Czech Republic	74	75
2	South Korea	72	70
3	Costa Rica	70	72
4	Uruguay	70	71
5	Poland	69	73
6	Croatia	69	70
7	Georgia	68	69
8	Romania	68	71
9	Chile	68	71
10	Israel	67	71
11	Serbia	66	67
12	Albania	65	64
13	Bulgaria	65	65
14	Hungary	65	68
15	Singapore	64	61
16	Panama	63	65
17	Seychelles	63	61
18	Malaysia	63	63
19	Tunisia	63	65
20	Argentina	63	64
21	Peru	63	63
22	Macedonia	62	57
23	Jamaica	62	64
24	Colombia	62	61
25	Brazil	61	61
26	Bahamas	60	nr
27	Bolivia	60	60
28	Mongolia	60	61
29	Paraguay	60	52
30	Armenia	59	55
31	Mexico	59	61
32	Ecuador	59	60
33	Belize	59	59
34	Thailand	59	57
35	Montenegro	59	61

#	Country	H2 17	H1 17
36	Jordan	59	53
37	El Salvador	59	62
38	Morocco	59	60
39	Dominican Republic	58	55
40	Trinidad and Tobago	58	52
41	Sri Lanka	58	58
42	Ukraine	57	59
43	Ghana	57	60
44	Namibia	57	60
45	India	57	57
46	Indonesia	57	59
47	Philippines	56	59
48	South Africa	56	54
49	Senegal	56	56
50	Turkey	55	59
51	Honduras	55	55
52	Maldives	53	-
53	Kenya	52	53
54	Bangladesh	52	46
55	Guatemala	52	52
56	Tanzania	52	52
57	Malawi	50	49
58	Venezuela	50	52
59	Zambia	49	49
60	Côte d'Ivoire	48	49
61	Lebanon	47	49
62	Uganda	47	47
63	Pakistan	45	46
64	Nigeria	45	39
65	Mozambique	43	43
66	Iraq	42	38
67	Aruba	nr	nr
68	Taiwan	nr	nr

United Arab Emirates	63
Qatar	62
Belarus	62
Oman	61
Kazakhstan	61
Vietnam	57
Azerbaijan	56
China	55
Saudi Arabia	54

Bahrain	54
Russia	53
Rwanda	52
Egypt	51
Cameroon	46
Ethiopia	44
Gabon	43
Angola	41
Congo	40

Top quartile countries
Second and third quartile countries
Bottom quartile countries
Not free countries

Democracy as a starting point

The core of the model is the democratic values. Upholding these is a moral obligation to DPAM, which is intrinsically linked to the stance of a sustainable investor. Indeed, academic research has demonstrated that there is a clear correlation between the quality of the institutional framework of a country and its default risk.

DPAM uses the research of the international NGO Freedom House to assess the democratic development of a country. Based on an annual survey containing 25 questions on political rights and civil liberties, a country is attributed the status of 'free', 'partially free' or 'not free'. This information is complemented by the democracy index published in The Economist, which is also based on approximately twenty questions to assess the democratic level of a country, and also by the Human Rights Watch and the annual report of these organisations on human rights.
Several countries within the emerging universe do not fulfil the minimum requirements in terms of democracy and investment leeway. In total, the investment strategy linked to this sustainability ranking refrains from investing in countries which have been categorised by reputable international sources as 'not free'. These include Gabon, Qatar, Belarus, Bahrein, Azerbaijan, Russia, Kazakhstan, Rwanda, the United Arab Emirates, Vietnam, Saudi Arabia, China, Angola, Ethiopia, Congo, Oman, Cameroon and Egypt.
Studies indicate there is a clear link between the democratic level of a country and its sustainability. It should therefore not come as a surprise that the majority of those countries deemed 'not free' are at the bottom of the sustainability ranking.

Sustainability: a real added value to manage investment in emerging markets

The analysis provides important information regarding sustainability levels of the studied countries. It enables comparison with several countries which have a similar level of economic development, but differ with regard to social, ecological and corporate governance development.
Making a clear and full analysis of the sustainability of a country adds real value as part of the construction of an investment portfolio, in addition to the ideological values that may be presented. In essence, the model puts into context the opportunities and risks linked to a country.

The objective is not to exclude countries which have low sustainability scorings, as several countries in the universe have just started to improve their democratic process. Many years of dictatorship weigh on the sustainable development of a country. The transition to full respect of civil liberties and political rights, freedom of press and gender equality is a long term process, in particular if these rights have been violated for many years. Therefore, the progress made by countries should be closely monitored. The Ivory Coast is a good example of a country with a promising economic future, which has an abundance of natural resources and commodities. Following the toppling of the former president Laurent Gbagbo, the country was plagued by instability and social upheaval. Although the country now seems to be on track for a better future, it is too early in the process to be recognised as a full and genuine democracy.

Global coverage

The extra-financial research performed by DPAM covers those countries into which investors may want to invest (35 OECD countries and 86 emerging countries). This forms an integral part of DPAM's conviction management, which is based on seeking risk-adjusted performance. Investors having a clear and full view of the risks and opportunities of a specific country have a comprehensive source of information to assess whether the companies active in that particular country may be successful. The quality of a financial investment is judged, among other things, by the characteristics of the markets the company operates in, and of the specificities of those countries.

What is sustainability?

Sustainable development meets the needs of the present generation without compromising the ability of future generations to meet their own needs.[1]

Sustainability at country level differs from that of a corporation. A sustainable **country** is committed to fully ensuring the freedom of its citizens and invests in their personal development and welfare. It is respectful towards the environment and is reliable in terms of international responsibilities and commitments. It ensures its future and invests in next generation (education & innovation).

How to measure sustainability of a country?

There are three main approaches to measuring the sustainability of a country:
1. The **legal approach**, with the emphasis on treaties and offenses related to government actions. It should be noted however that agreement treaties is not always fully binding and there is often no penalty where violations occur.
2. The extreme **stakeholder approach.** The inconvenience of this approach is the importance of the number of stakeholders and parameters to be considered, giving rise to the possibility of dilution and irrelevancy of the indicators.
3. The **exclusion approach,** which consists of exclusions on the basis of controversial activities, examples being whale hunting and deforestation.

The approaches raise the issue of the moral threshold level and, subjectivity is likely to make it questionable. In contrast to corporates, for which extra financial information is largely provided by external parties, for countries there is a perceived lack of information.

The lack of information and an associated model encouraged DPAM to develop an in-house research model in 2007. Given the subjective character of the issue, key principles were defined from the beginning:

[1] Brundtland Report for the United Nations – 1987

1. Existence of an **advisory board,** consisting of external specialists providing input to the model
2. Assessment of the country commitment to its **sustainable development**: variables on which the country can have influence through decisions.
3. **Comparability and objectivity:** criteria are numeric data, available from reliable sources and comparable for all countries.

The Fixed Income Sustainable Advisory Board (FISAB) ensures the objectivity of the model

The role of the FISAB is threefold:

1. To select the SRI criteria which fulfil the preliminary requirements and are the most relevant in the framework of sustainability assessment of the investment universe.
2. To determine the weights attributed to each indicator.
3. To critically and accurately review the model and the ranking to ensure continuous improvement
4. To validate the list of eligible countries

The FISAB consists of eight voting members, four external and four internal. The objective of the board is to raise awareness on ESG issues among the portfolio management teams. The complementary background of the members guarantees a high level of expertise and knowledge of the issue in constructing the most relevant model.

Selective and objective criteria to assess the sustainability of countries

The sustainable overlay is characterised by indicators, which governments can utilise to influence their policies (government, authorities, and law). Thus, it avoids data linked to the geography or population density of the country. The model is quantitative and tracks the current performance of a country, with comparable data. Only a limited number of treaties are considered as they do not guarantee genuine commitment.

The underlying principles of the model remain the same, quantifiable criteria that can be applied to all countries, coming from acknowledged and reliable sources. Simultaneously, the assessment criteria must be adapted to the specific context. The level of development strongly varies from one country to another, which is why it is crucial to focus on a limited number of criteria which are vital to sustainability. For instance, the literacy rate is not relevant in developed countries in Europe, it is more so in countries such as Brazil, Ghana and Malaysia.

Degroof Petercam Best-in-class combined with best-effort approach

The sustainability analysis focuses on five key drivers (Transparency & Democratic Values, Environment, Education/Innovation, Healthcare & Wealth Distribution and Economics) which contribute to the total score according to their relative weight. Each criterion gets an assigned weight and each country receives a score ranging from 0 (worst) to 100 (best) based on its relative position compared to other countries (comparison to the difference between the maximum and the minimum). For binary criterion (death penalty, signing Kyoto protocol, for instance) a score of either 0 or 100 will apply.
The trend i.e. the evolution over the last three years is calculated for each criterion and weights for half of each individual score.
The final and overall score of a country is equal to the weighted average of the scores on each criterion, using the weights which are decided by the Fixed Income Sustainable Advisory Board. The trend, which explains 50% of the final score, can be positive or negative, justifying that countries can score negatively.
The selection process results in a ranking of the 86 countries. The final scoring is rounded up to avoid an excessively unstable universe as decimals are statistically irrelevant.

33% Transparency and democratic values

Corruption, Press freedom, Civil liberties, Governance sub indexes, ICC, etc.

Environment **15%**

Ecological footprint, Kyoto protocol, Ecological performance index, etc.

11% Economics

15% Education/Innovation

Literacy rate, School enrolment, Expenditure per student, etc.

Population health & wealth distribution **26%**

GINI-index, Unemployment infant mortality, Water indicators, Sanitation indicators, Health prevention, etc.

Trend criteria 50%

Specific economic data are taken into account to assess the fiscal situation of a country. Indeed, the stronger the fiscal and budgetary position, the more a country needs to invest in purposeful governance programs to manage social and environmental risks and support long-term sustainability goals. Economic data is therefore an additional key driver (competitiveness index, budget balance, public debt, etc.) but the weight assigned is lower than the four other key drivers as this type of data are also taken into account by the investment team in their fundamental research and analysis.

For the sake of comparability, data are historical. To avoid subjectivity in the model, no data based on future promises (policies, etc.) are considered. Nevertheless, progress and improvement are taken into

consideration through a **trend indicator,** which provides insights into the robustness of a country's commitment to sustainability. The trend is calculated over the previous three years and a 50% weight of the scoring is allocated to it.
In total, the model counts over 30 indicators.

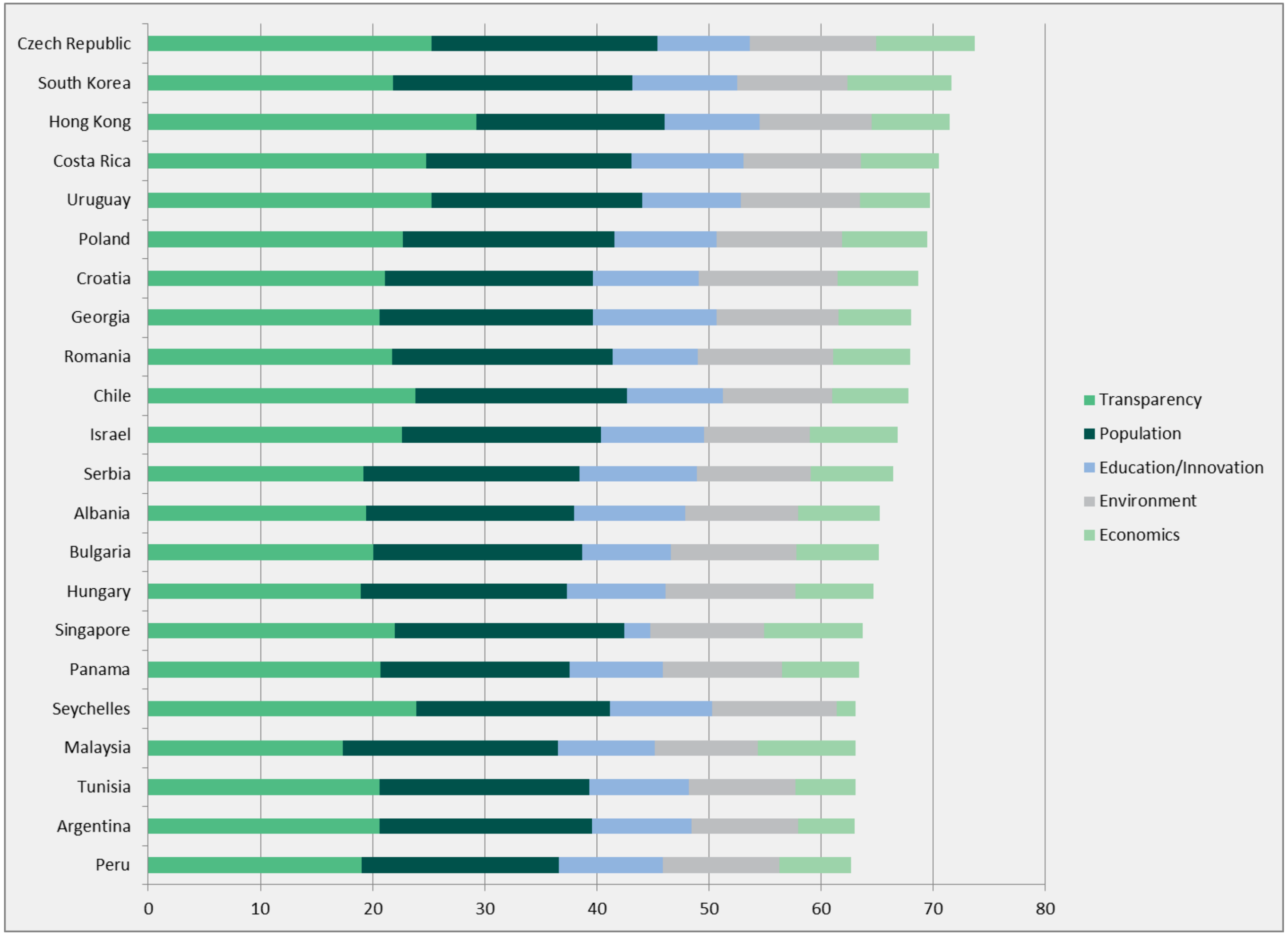
The approach is dynamic as the selected criteria are reviewed twice per year with the intention of selecting the most appropriate and relevant criteria for each domain. An indicator may be replaced and adapted, or omitted. New indicators can enter the model and the allocation of the weightings may also vary.

Sources are internationally recognised

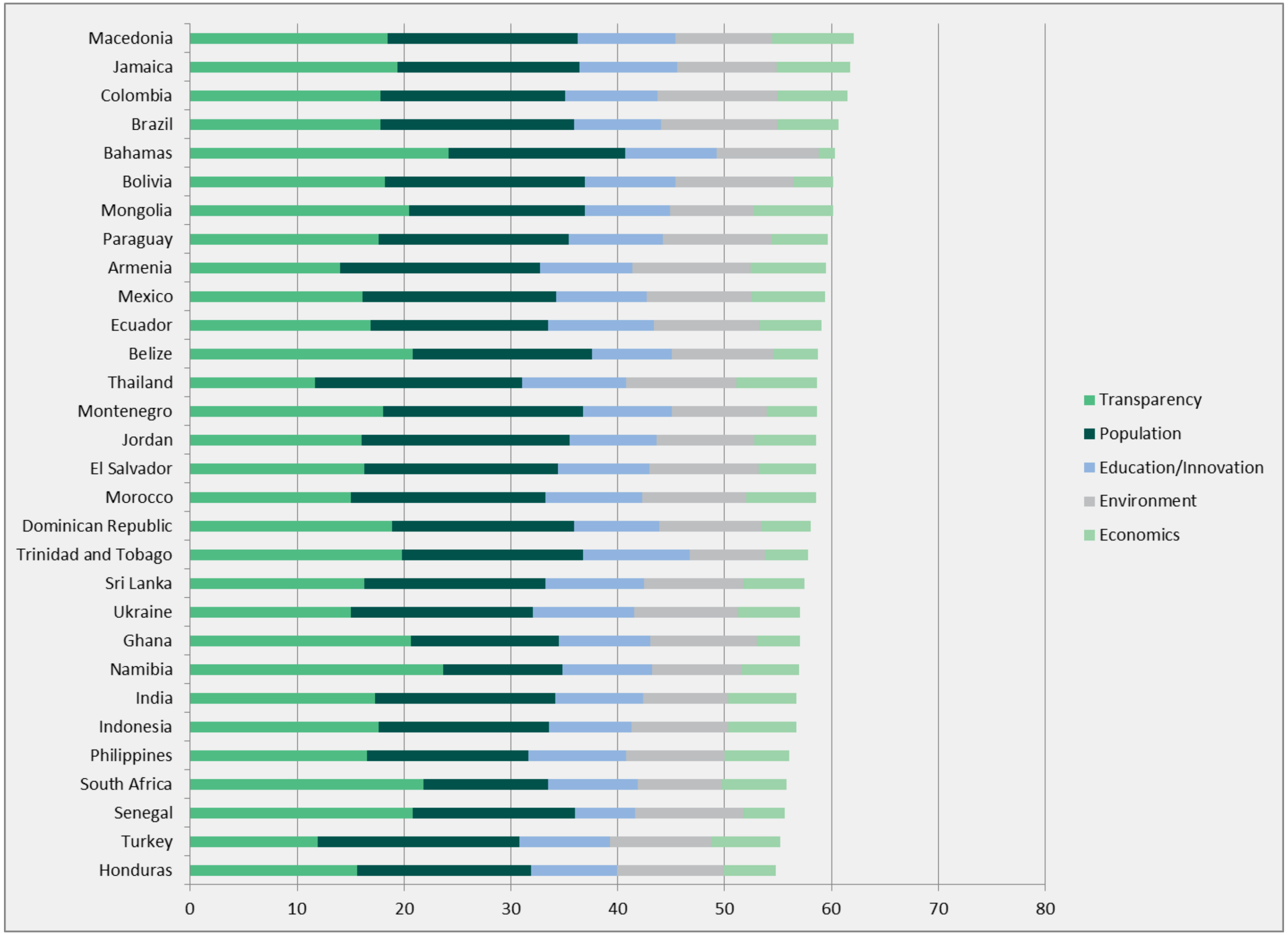
The model aims for highest possible level of objectivity. Accordingly, statistical data to support the analysis of the country's sustainability are mainly collected from government databases and international government agencies such as the International Energy Agency, World Bank, International Monetary Fund, United Nations Development Programme and US Central Intelligence Agency. Data are complemented by information drawn from leading non-governmental organisations such as Freedom House, Transparency International and World Economic Forum.

Individual sustainable profiles

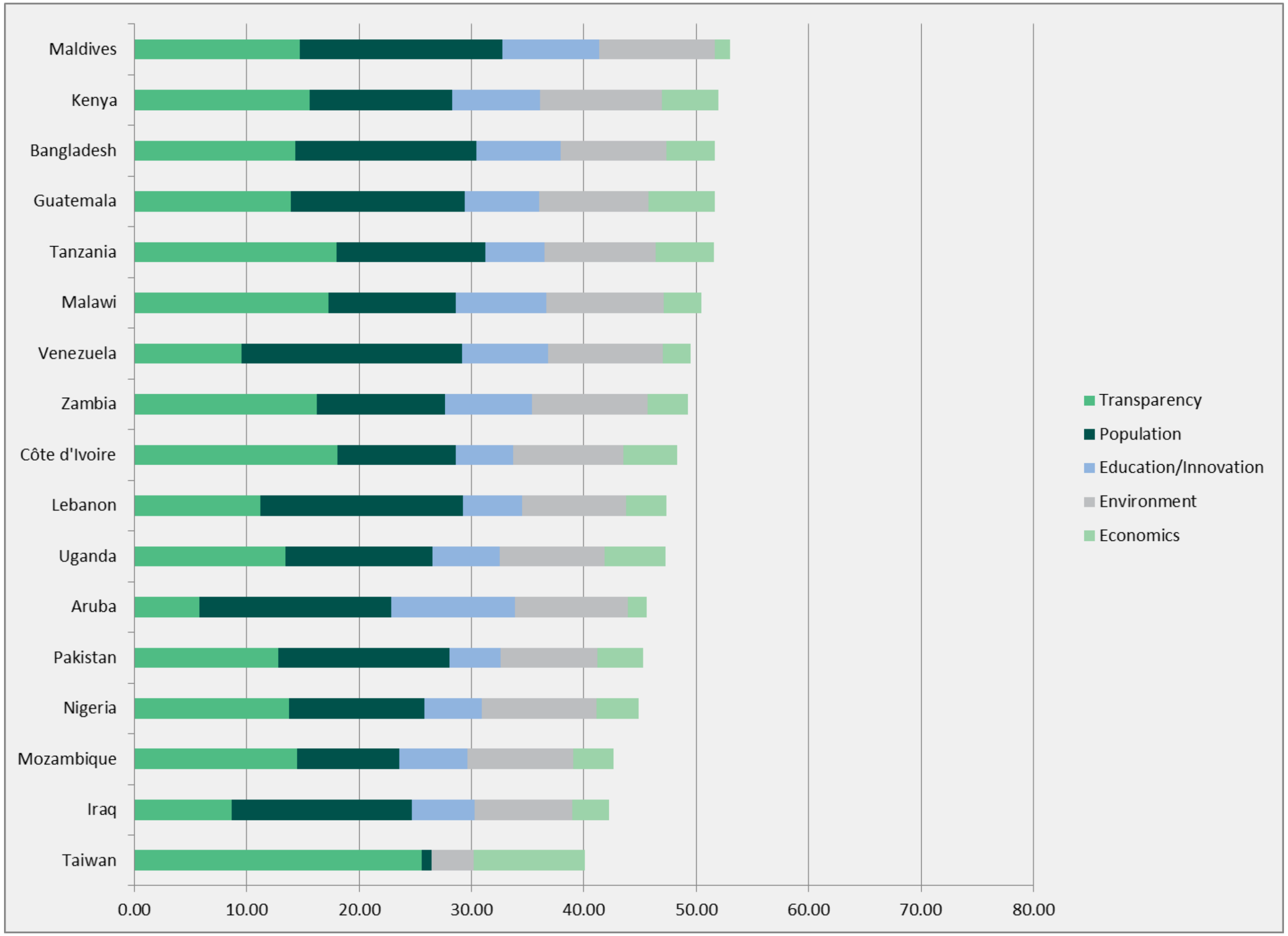
First quartile ranked countries
Hong Kong is screened but not a separate country



Second and third quartiles ranked countries



Bottom quartile ranked countries



Features of the investment fund DPAM L Bonds Emerging Markets Sustainable

Objective of the investment fund

DPAM L Bonds Emerging Markets Sustainable invests in bonds and/or other debt securities, including but not limited to, perpetual bonds, inflation-linked bonds, zero coupon bonds and structure products, such as for example, credit linked notes, with a fixed or floating rate, denominated in any currency, issued (or guaranteed) by emerging countries, including its regional public authorities and public (o equivalent) bodies or by international public bodies, such as World Bank or the European Bank for Reconstruction and Development and selected on the basis of sustainable development criteria, such as for example, social equity, environmental awareness and socially equitable political and economic governance.

Technical details

DPAM L Invest Bonds Emerging Markets Sustainable is a sub-fund of DPAM L Bonds, a sicav under Luxembourg law

ISIN Income class A	LU0907927171
ISIN Accumulation class B	LU0907927338
ISIN Income class E	LU0907927841
ISIN Accumulation class F	LU0907928062
Entry fee	Negotiable with a maximum of 2%
Exit fee	0%
Management fee (class A and B)	1.00% annually

Please refer to the KIID, (simplified) prospectus and fund factsheet for additional information.

Degroof Petercam and its commitment towards sustainability

Degroof Petercam Asset Management considers today's global challenges as major opportunities for tomorrow. By looking at the world from a disciplined and broader perspective, our partners and investors stand to benefit from our approach and expertise. For us, being a responsible investor is not solely about offering responsible products, it is a global commitment at the company level defined by a consistent approach to sustainability.

Our commitment is threefold:

- To uphold fundamental rights as per the United Nations Global Compact
- To give our opinion about controversial activities
- To be a responsible stakeholder and to foster best practices and evolutions

The mission statement of responsible investing is the cornerstone of Degroof Petercam's commitment to sustainable finance and aims at fostering a sustainable economy by unlocking long-term economic and social value.

Degroof Petercam Asset Management is an independent financial institution with the fiduciary duty to act in the best long-term interests of its clients.

Individuals, organisations, companies and countries, all face a growing number of long-term challenges and new paradigms. That is why investors are increasingly paying attention to sustainability factors and their impact on the long term. This has all resulted in new insights in the field of financial analysis. Sustainable development is part and parcel of profitability and the ability to create long-term shareholder value.

We aim at aligning our investment activities with the broader interests of society. This predominantly involves incorporating in our decision making process key questions about the impact of our investment. Degroof Petercam Asset Management turns to various independent experts specialized in environmental, social and governance matters. As a member of our scientific boards or as an invitee to our "responsible investment corners", they make an important contribution to enhancing our processes and methodologies. Sharing information and engaging with a positive yet critical mind-set endow Degroof Petercam's professionals with a sense of responsibility and prompts them to act as knowledgeable and well-informed investors.

Integrating ESG challenges with knowledge about risks and opportunities

Degroof Petercam Asset Management's core business is managing assets for its clients in their sole interest, based on a financial objective that is consistent with the client's objectives and guidelines. We are convinced that ESG-issues can impact the performance of investment solutions. By identifying risks related to ESG challenges we can get a better understanding of the broader risks involved in an investment and this makes our management more proactive.

At Degroof Petercam, ESG issues are not isolated processes but are fully integrated throughout the entire investment process. This is done through engaging with companies by the investment and research teams as well as different stakeholders such as extra financial rating agencies. We refrain from "dictating" to our clients what is responsible or not, nor what is sustainable or not. However, we map all the risks and opportunities associated with a specific investment and understand how ESG factors affect our investment decisions.

1 **Over 10y track record in sustainable investing**

2 **Over € 2.5 bn in sustainable strategies across main asset classes**

3 **Pioneer in sustainable sovereign debt – over € 1 bn invested**

4 **Signatory of UN-PRI since 2011 – Highest rating A+ for our expertise**

5 **Exercising our voting rights in + 500 companies in Europe and North America**

6 **Engaged in dialogue with + 50 companies regarding corporate governance practices**

Responsible ownership: making its voice heard

As a shareholder and economic actor, Degroof Petercam Asset Management bears a personal social responsibility:

- Ensuring that the rights of shareholders and other stakeholders are respected. Degroof Petercam has adopted a voting policy and participates in general and extraordinary shareholders' meetings. We speak up so that the companies we invest in are managed according to best practices in terms of corporate responsibility. Our voting policy provides detail on our approach to promoting best practices in terms of corporate governance.
- Engaging in a dialogue with the companies we invest in. This means, raising key questions with investee companies and engaging with them to ensure that the rights of shareholders as well as those of other stakeholders are respected to create long term shareholder value. Our engagement program details our commitment and procedures to uphold this vision.

Degroof Petercam Asset Management became a signatory to the UN Principles for Responsible Investment (PRI) in 2011. This has been an important milestone in our sustainable journey by adopting a clear and formalized responsible investment policy and by prompting us to integrate ESG in our financial analysis.

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