



October 2017 ■ degroofpetercam.com

Sustainability Ranking

Developed Countries

Sustainability Ranking - DEVELOPED countries

Half-yearly report – October 2017

While sustainable and ESG research on corporates from independent third parties is generally readily available, reliable information on countries is harder to come by. The sovereign debt crises have questioned the status of 'risk-free' asset class of government bonds. This has led to the emergence of several analyses of country sustainability.

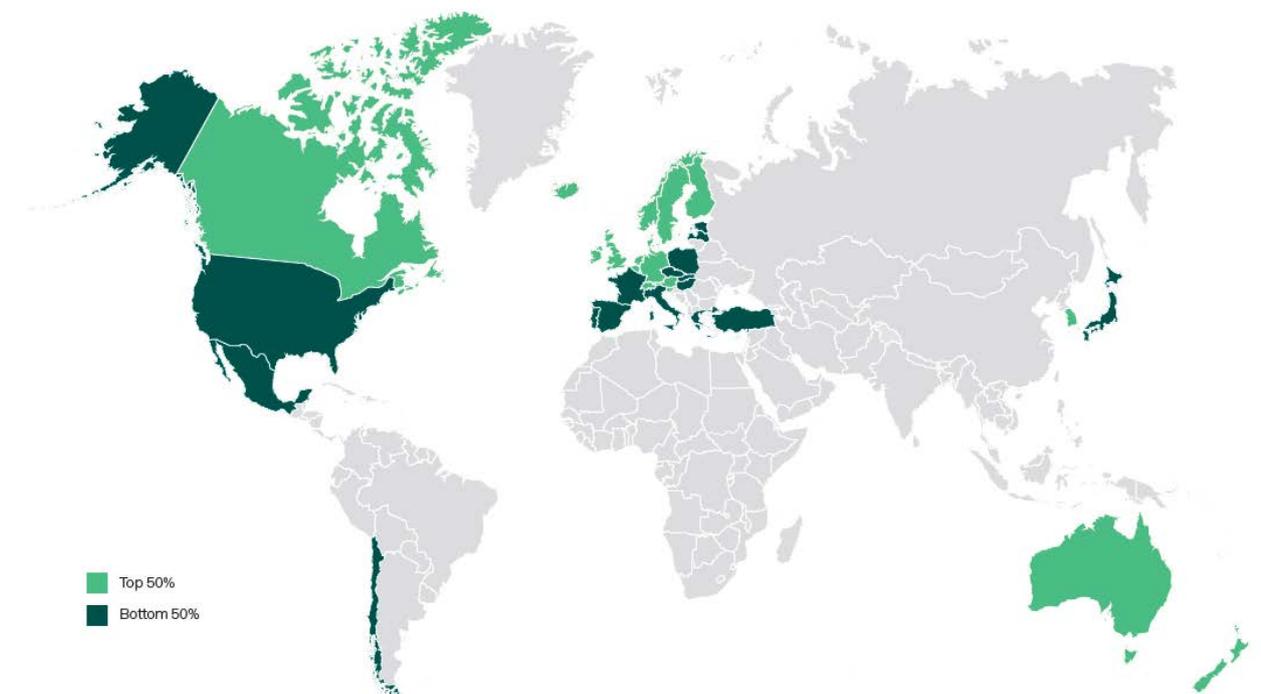
This in-house developed sustainability ranking is the basis of the eligible investment universe of government bonds issued by OECD Member States. The proprietary research model, which was developed by Degroof Petercam Asset Management (DPAM) in 2007, has the track record and credibility to assess trends and the added value of such analyses.

Sustainability ranking – October 2017

The starting universe is composed from the members of the OECD¹, therefore each new membership is included in the starting universe. The sustainability ranking allows the identification of countries which have fully integrated global challenges in their development of 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.

Developed Markets, October 2017



¹ Israel joined OECD in 2010. Due to its severe violation of international treaties, it is not part of the screened universe.

| Country | H2 17 | | H1 17 | |
|----------------|-------|-------|-------|-------|
| | # | score | # | score |
| Iceland | 1 | 79 | 2 | 75 |
| Denmark | 2 | 78 | 1 | 78 |
| Sweden | 3 | 75 | 4 | 74 |
| Norway | 4 | 74 | 3 | 75 |
| Switzerland | 5 | 73 | 7 | 72 |
| Finland | 6 | 71 | 6 | 73 |
| New Zealand | 7 | 71 | 5 | 73 |
| Germany | 8 | 70 | 8 | 71 |
| Slovenia | 9 | 69 | 10 | 69 |
| Austria | 10 | 68 | 13 | 68 |
| Netherlands | 11 | 68 | 12 | 68 |
| Luxembourg | 12 | 68 | 16 | 66 |
| Ireland | 13 | 67 | 9 | 70 |
| United Kingdom | 14 | 65 | 11 | 68 |
| Canada | 15 | 64 | 14 | 67 |
| Australia | 16 | 64 | 15 | 67 |
| South Korea | 17 | 64 | 18 | 63 |
| Belgium | 18 | 64 | 17 | 65 |

Eligible country for investment

| Country | H2 17 | | H1 17 | |
|----------------|-------|-------|-------|-------|
| | # | score | # | score |
| Czech Republic | 19 | 63 | 20 | 62 |
| France | 20 | 63 | 19 | 63 |
| Japan | 21 | 61 | 21 | 62 |
| Estonia | 22 | 61 | 22 | 61 |
| Slovakia | 23 | 59 | 25 | 58 |
| Poland | 24 | 58 | 27 | 58 |
| Portugal | 25 | 57 | 23 | 60 |
| Spain | 26 | 56 | 24 | 58 |
| Latvia | 27 | 56 | 28 | 56 |
| United States | 28 | 55 | 26 | 58 |
| Italy | 29 | 54 | 29 | 55 |
| Hungary | 30 | 54 | 30 | 53 |
| Chile | 31 | 50 | 31 | 52 |
| Greece | 32 | 45 | 32 | 46 |
| Mexico | 33 | 42 | 33 | 45 |
| Turkey | 34 | 37 | 34 | 38 |

Non-eligible country for investment

What is sustainability?

Sustainable development meets the needs of the present generation without compromising the ability of future generations to meet their own needs.²

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, namely

1. The **legal approach**, with the emphasis on treaties and offenses related to government actions. It should be noted however that agreement on 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 .

These 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.

² Brundtland Report for the United Nations – 1987

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. Existence of an **advisory board**, consisting of external specialists providing input to the model
2. Assessment of the commitment of the country 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 the following:

1. To select the sustainable criteria which fulfil the preliminary requirements, and are the most relevant in the framework of sustainability assessment of the OECD 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 the criteria which governments can utilise to influence their policies (government, authorities, 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.

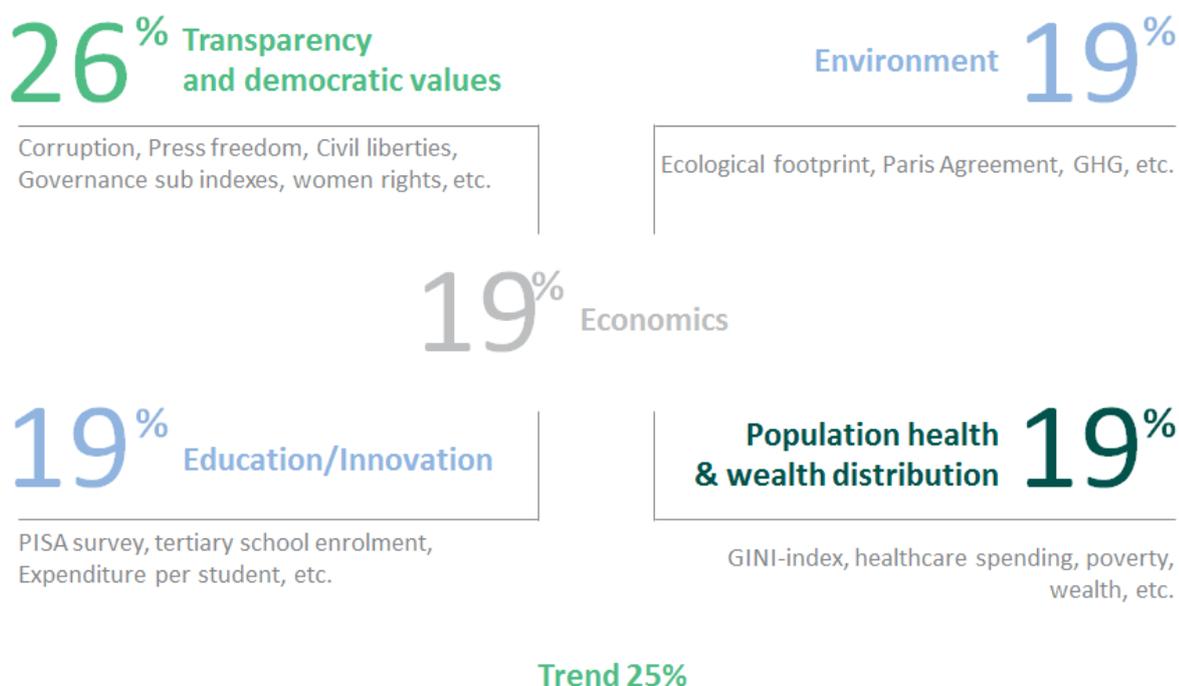
Best-in-class combined with best-effort approach

The sustainability analysis focuses on five main key drivers: Transparency & democratic values, Environment, Education & Innovation, Population, health, wealth distribution and Economics.

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 criteria (death penalty, signing Kyoto protocol) a score of either 0 or 100 will apply.

The final and overall score of a country is equal to the weighted average of the different scores, using the weights which are decided by the Fixed Income Sustainable Advisory Board.

The selection process results in a ranking of the 34 countries. The final scoring is rounded up to avoid an excessively unstable universe as decimals are statistically irrelevant.



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 25% weight of the scoring is allocated to it.

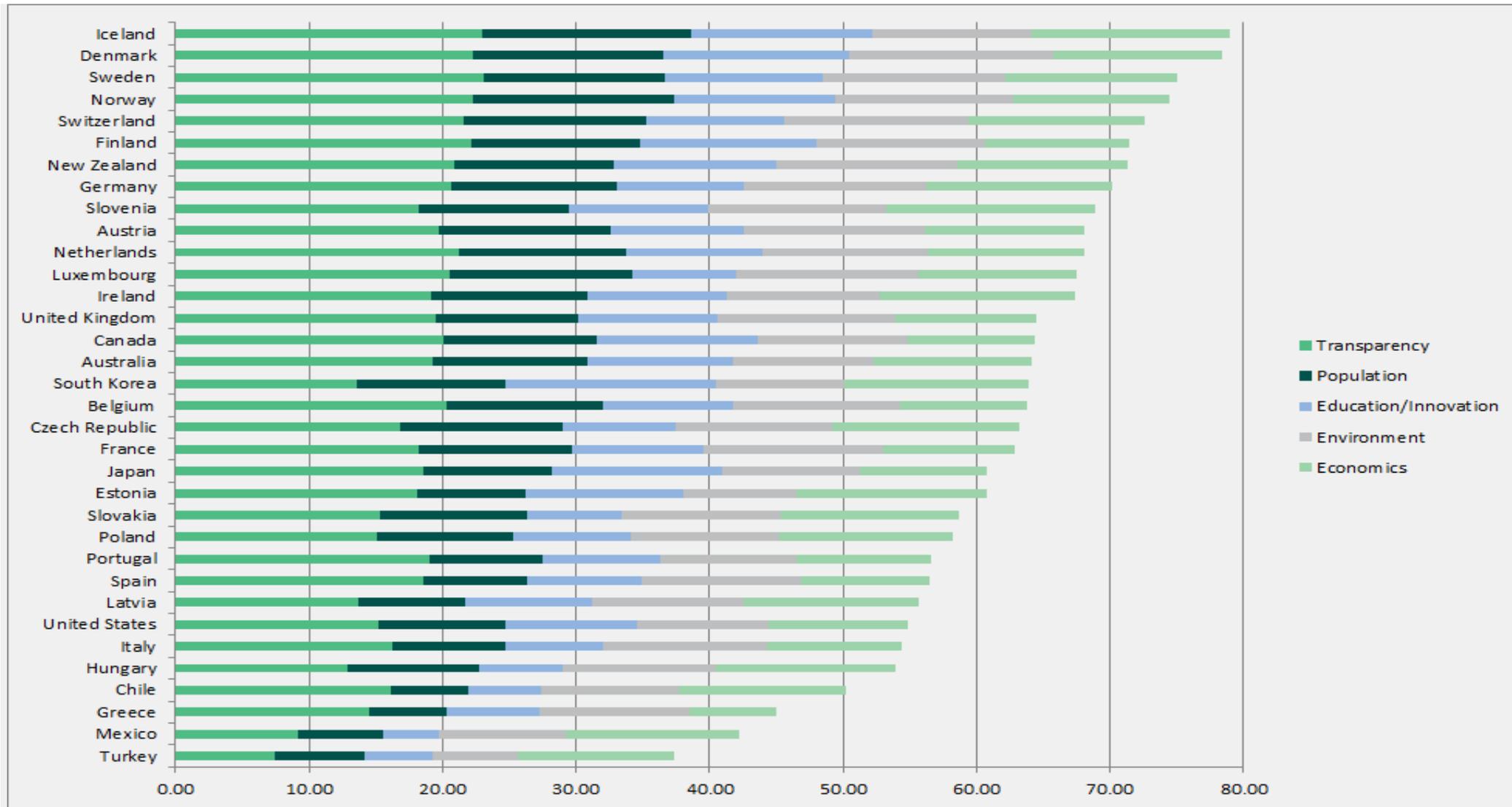
In total, the model has around 60 indicators.

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. In the event of grave offenses (for example declaration of war, violation of international rights/UN conventions), countries may be excluded as from the beginning of the sustainable research process (Israel in 2010 for example).

Sources are internationally recognized

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.

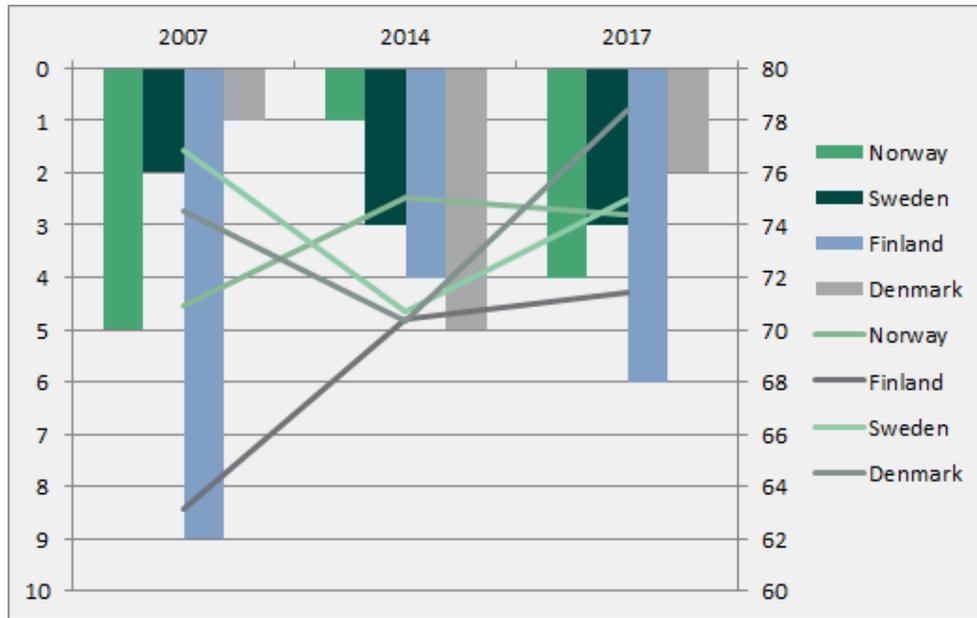
Ranking per main key sustainable drivers



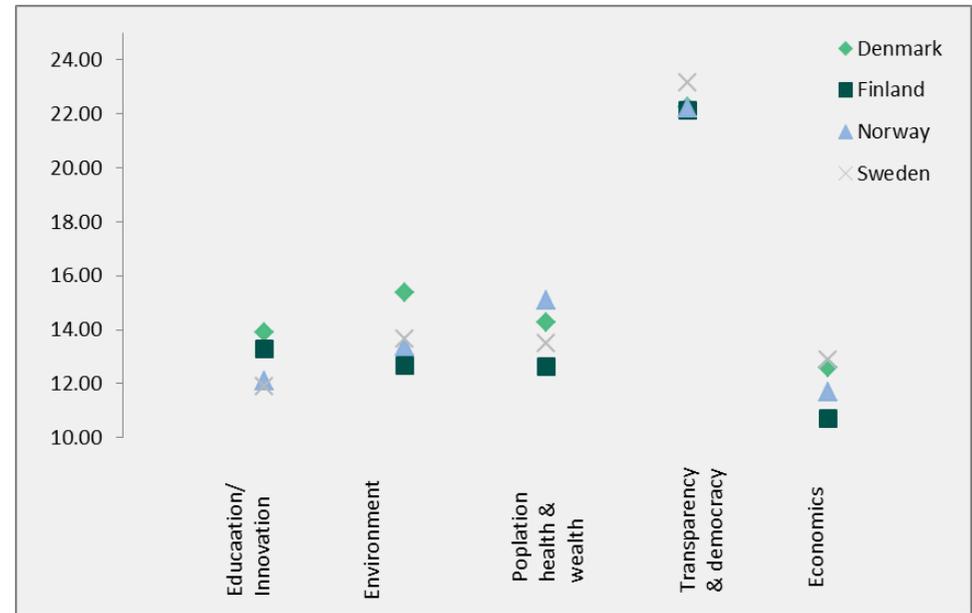
A 10-year track record : some observations

The Scandinavian countries are scoring best

Ranking position (LHS inverted) compared to total scores (RHS)



The 5 sustainability drivers – comparison H2 2017



But Germany, Switzerland, Iceland and Ireland have improved continuously in the top 10

Ranking position (LHS inverted) compared to total scores (RHS)

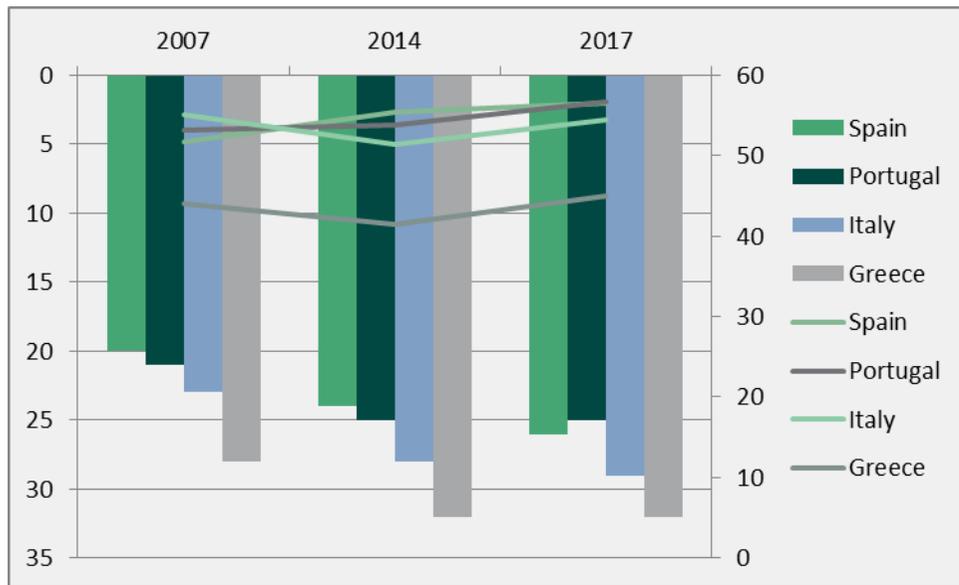


The 5 sustainability drivers – comparison H2 2017

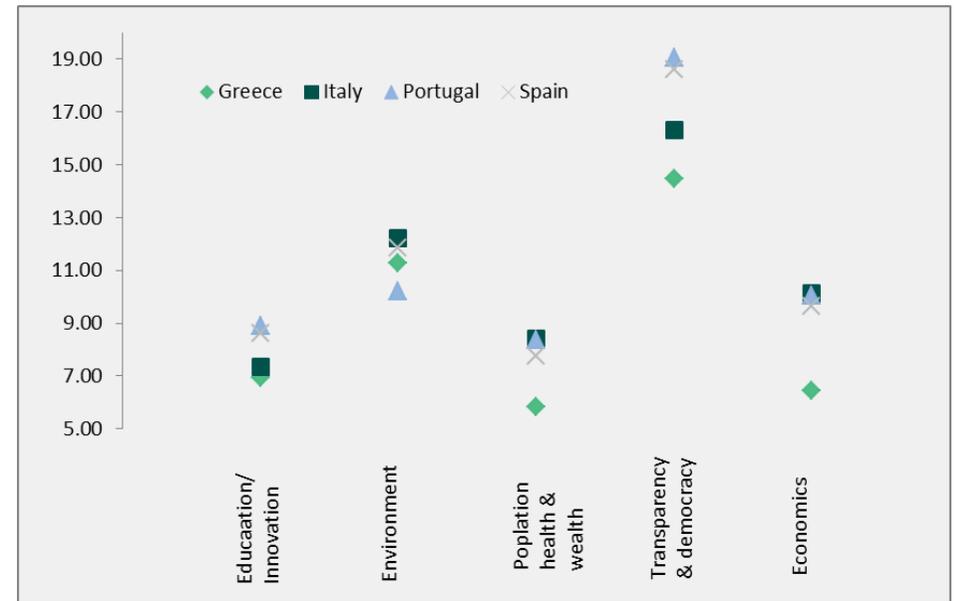


The peripheral Eurozone countries still in the bottom but with unequal progress.

Ranking position (LHS inverted) compared to total scores (RHS)



The 5 sustainability drivers – comparison H2 2017



Features of the investment fund DPAM L Bonds Government Sustainable

Investment objective of the investment fund

DPAM L Bonds Government Sustainable mainly invests in bonds and/or other debt securities, fixed or floating, issued (or guaranteed) by an OECD Member State (including the regional authorities thereof) or certain international public bodies and selected on the basis of sustainable development criteria.

Technical details

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

| | |
|--------------------------------|---------------------------------|
| ISIN Income class A | LU0336683411 |
| ISIN Accumulation class B | LU0336683502 |
| ISIN Income class E | LU0336683684 |
| ISIN Accumulation class F | LU0336683767 |
| Entry fee | Negotiable with a maximum of 2% |
| Exit fee | 0% |
| Management fee (class A and B) | 0.40% 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.

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

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 regarding 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.

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.

DPAM aims at aligning its 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. DPAM is 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 DPAM, 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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Applications to invest in any fund referred to in this document can only validly be made on the basis of the Key Investor Information Document (KIID), the prospectus and the latest available annual and semi-annual reports. These documents can be obtained free of charge from Degroof Petercam Asset Management SA, the financial service provider and on the website of the sub-fund at funds.degroofpetercam.com.

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