

JULY 2022

SUSTAINABILITY RANKING DEVELOPED COUNTRIES

THE PARAMOUNT ROLE OF A REAL DEMOCRACY

The War in Ukraine is a daily reminder of how precious freedom and democracy are, and how essential security is.

The respect of civil liberties and political rights has been at the core of our proprietary model for sustainable countries since inception.

Over the last decade, we have reprehended the decrease in democratic values and real democracies around the world, including most developed ones like the OECD Member States. Even within democratic emblems such as United States and European countries, it is still key to recognise the importance of those fundamental values. **In the end, it is all about impact and value alignment.**



Since the 2008 sovereign debt crisis and the loss of “risk-free asset” status, countries are increasingly being scrutinized from an environmental, social and governance perspective.

Indeed, credit rating agencies now include climate change risk in their assessment. The holistic sustainability approach developed by DPAM in 2007 remains a pioneer today, on the one hand because of the range of interconnected issues it analyses and on the other because of the nearly 15 years of experience and observations with the precious help of leading experts on key subjects such as demographic issues or biodiversity.

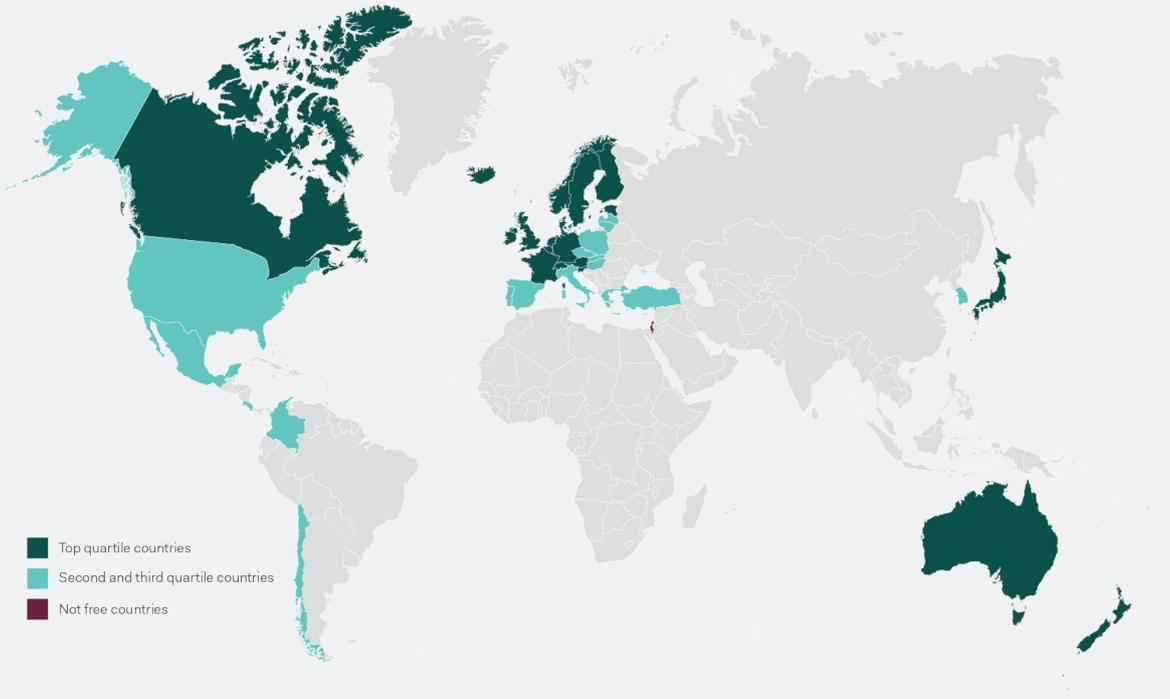
SUSTAINABILITY RANKING – JULY 2022

The starting universe is composed from the members of the OECD, 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 ratings, which is traditionally used to assess the short and medium term valuation of sovereign debt.

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

Developed Markets



Source: DPAM, July 2022

Sustainable country ranking of OECD member states

Eligible country for investment	H1 22		H1 21	
	#	score	#	score
Norway	1	73	2	73
Denmark	2	72	1	74
Sweden	3	69	3	72
Switzerland	4	68	4	72
Finland	5	68	5	70
Luxembourg	6	67	13	64
Austria	7	67	9	68
Germany	8	67	12	65
Iceland	9	66	6	70
New Zealand	10	66	8	69
Netherlands	11	65	7	70
United Kingdom	12	65	16	63
Ireland	13	65	11	65
Estonia	14	62	20	61
France	15	62	17	61
Belgium	16	61	14	64
Australia	17	61	15	63
Slovenia	18	61	18	61
Canada	19	60	10	66
Japan	20	60	19	59

Non-eligible country for investment	H1 22		H1 21	
	#	score	#	score
Portugal	21	59	21	60
United States	22	58	24	57
Latvia	23	57	30	51
Italy	24	57	27	55
Spain	25	57	23	58
South Korea	26	56	22	59
Chile	27	56	35	48
Costa Rica	28	55	31	51
Slovakia	29	54	28	53
Czech Republic	30	53	26	55
Poland	31	53	25	56
Lithuania	32	53	29	52
Greece	33	49	34	48
Hungary	34	49	32	50
Israel	35	46	33	50
Colombia	36	44	37	36
Mexico	37	39	38	36
Turkey	38	39	36	39

Excluded: Israel

Source: DPAM, July 2022

Please keep in mind that for year-on-year comparisons, sustainability ranks could be influenced by various factors, such as changes in metrics and data availability.

WHAT IS SUSTAINABILITY?

Sustainable development meets the needs of the present generation without compromising the ability of future generations to meet their own needs¹.

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 generations (education & innovation).

HOW TO MEASURE SUSTAINABILITY OF A COUNTRY?

There are three main approaches to measure the sustainability of a country, namely

- 01 The **legal approach**, with the emphasis on treaties and offenses related to government actions. It should be noted however that agreement on treaties are not always fully binding and there is often no penalty where violations occur.
- 02 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.
- 03 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.

¹ Source: Bruntland Report, 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:

01

Existence of an **advisory board**, consisting of external specialists providing input to the model.

02

Assessment of the commitment of the country to its **sustainable development**: variables on which the country can have influence through decisions.

03

Comparability and objectivity: criteria are numeric data, available from reliable sources and comparable for all countries.

THE FIXED INCOME SUSTAINABILITY ADVISORY BOARD (FISAB) ENSURES THE OBJECTIVITY OF THE MODEL

The role of the FISAB is:

- 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 seven voting members with a majority of external experts. The complementary background of the members guarantees a high level of expertise and knowledge of the issue in constructing the most relevant model. The objective of the board is to raise awareness on ESG issues among the portfolio management teams.

EXTERNAL MEMBERS

Aleksandar Rankovic
*Researcher at IDDDRI
 (Institute for Sustainable
 Development and
 International Relations)*

François Gemenne
*Professor at Sciences Po
 (Paris) & ULB (Brussels)*

Jan Schaerlaekens
*Deputy at
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*Assistant Professor at
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INTERNAL MEMBERS

Ophélie Mortier
*Chief Sustainable Investment
 Officer DPAM*

Ives Hup
*Global Key Accounts Coordinator
 DPAM*

Celine Boulenger
*Economist
 Degroof Petercam*

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.

NORMS-SCREENING: VIOLATION OF INTERNATIONAL TREATIES

The Belgian department of foreign affairs reminds investors in Israel that the EU and its member states consider the establishment of Israeli settlements in the Israeli-occupied territories illegal under international law, an obstacle for peace and a possible threat for a two state solution to the Israeli-Palestinian conflict.

The Belgian department of foreign affairs also warns EU citizens and companies to be aware of the fact that economic or financial activities related to the settlements can cause reputation damage. The FISAB is aware of the fact that Israel claims that there is no violation of international law because the Fourth Geneva convention does not apply to the territories occupied in the 1967 six-day war. However, the United Nations Security Council, the United Nations General Assembly, the International Court of Justice, the International Committee of the Red Cross and the High Contracting Parties to the Convention have all affirmed that the convention does apply. The sustainable strategies the FISAB oversees operate under European law. It therefore follows the official Belgian and EU view that there is a violation of international law. Israel is therefore excluded from the eligible universe.

BEST-IN-CLASS COMBINED WITH BEST APPROACH

Existing for over 15 years, the FISAB organized several strategic sessions on the proprietary model. The model was reviewed through the ESG angle: Environment, Social & Governance.

If climate has been occupying a major place in the global political agenda and in the sustainability analysis, DPAM remains convinced about the equal importance of the three interconnected dimensions.

The existing structure of five dimensions has been reviewed through this angle i.e.:



ENVIRONMENT

The environmental dimension.



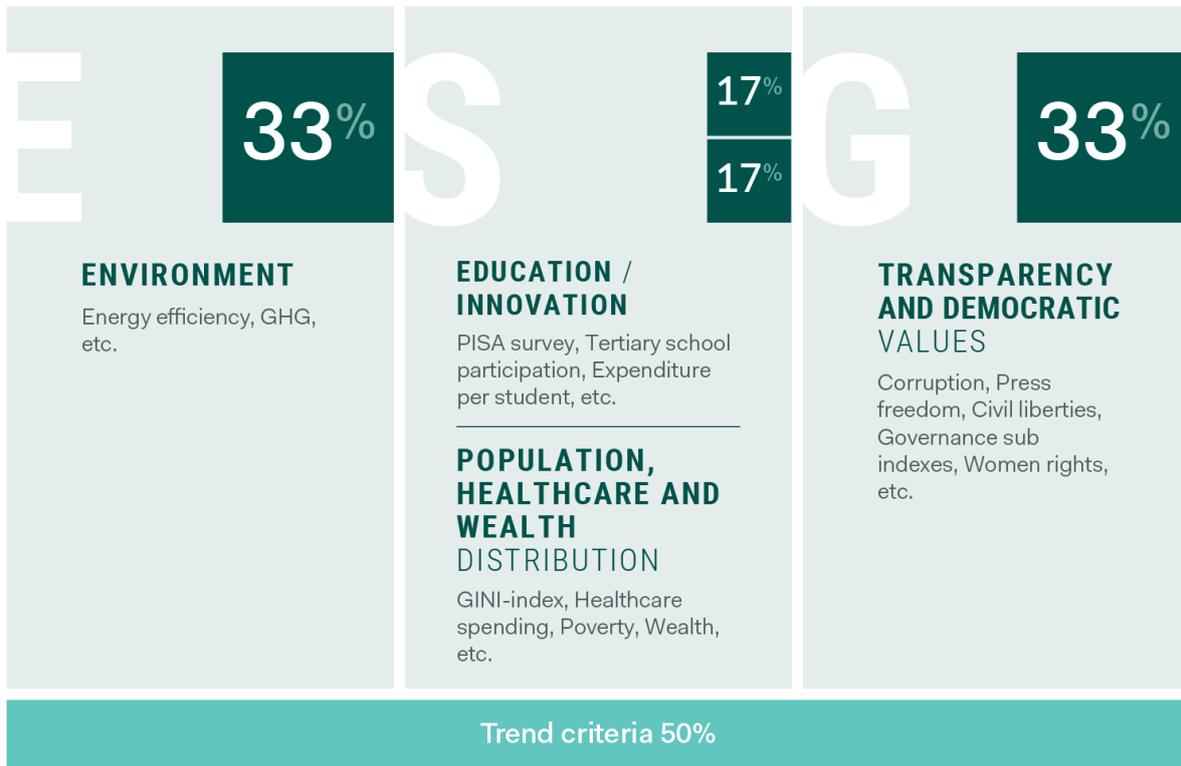
SOCIAL

Regrouping the dimension of “population, health & wealth distribution” and the dimension of future generation “education and innovation.”



GOVERNANCE

The dimension of “Transparency & democratic values.”



The country model which originally consisted of 5 pillars, has been brought back to 4 pillars, the ‘Economics’ pillar having been absorbed by the pillars ‘Education/Innovation’ and ‘Population, healthcare and wealth’, This implies it remains present in the new model, for about 7.50%.

The economic dimension remains naturally important, aligned with the principle of the Three Ps (People, Planet, Profit). This dimension is largely covered by the portfolio management expertise. From the sustainability perspective, we still see the Economics pillar as an important factor, yet we have lowered the overall weight of this pillar. As sustainable economic indicators, we kept age independency, unemployment and youth unemployment included in the social dimension.

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.

THE MODEL PREDATES THE **SUSTAINABLE DEVELOPMENT GOALS**

The 17 Sustainable Development Goals (SDG's), in the wake of the Millennium Development Goals, which were launched by the United Nations between 2000 and 2015, aim to advocate sustainable development on the economic, social and environmental domain. They reaffirm the human rights and the willingness to eradicate poverty, hunger and inequality by the end 2030.

The 17 social, environmental and economic objectives have been adopted by nearly 200 countries. It is a unique opportunity to channel more investments towards major environmental and social challenges.

DPAM is proud of its pioneer sustainability model that predates the SDG's. SDG's are so much more than a mere different framework to communicate on our ESG and sustainable investment philosophy. We review the country model taking into account the SDG's to increase its relevancy and to better integrate these objectives in our investment decisions.



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SOURCES ARE **INTERNATIONALLY RECOGNIZED**

The model aims for the 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 governmental 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.

KEEPING **A HOLISTIC VIEW**

Our sustainability country model relies on the three key sustainability dimensions namely Environment, Social & Governance. Each dimension is equally important but their individual analysis does not hide the interconnectivity between the three correlated dimensions.

Over the last years, we witnessed several disruptions and even contradictions regarding governance, social concern or environmental issues. This is why **sustainability analysis at country level has been essential in an integrated model**. (Read more on the [holistic approach in sustainability here](#))

In terms of governance, the strength of the governing institutions is a key indicator to ensure the reliability and stability of the adopted policies and programs. These enable countries in facing internal and/or external challenges and obstacles.

The lack of credible and meaningful policies could impact the social stability of a country. Sound corporate governance is indisputable. At the same time, social instability weighs on long-term growth potential and economic development of a country.

The examples of citizens, through NGO's, suing the States for lack of responsibility in their environmental ambition and emissions targets – is testament to the strong relationship between governance and environment.

ENGAGING WITH COUNTRIES **AS SOVEREIGN BONDS HOLDERS**

As a **sustainable partner** and deeply focused in making an impact, we started to engage with countries to explain our role as a **key intermediary in the value chain**. This role can be a mean towards a sustainable agenda for different sovereigns' representatives.

Engaging with countries has always been considered challenging, if not impossible to achieve. Therefore, investors have rarely got involved. However, DPAM is convinced of its importance by approaching sovereign issuers and explaining the sustainable methodology we have developed for over 15 years.

The sovereign bond portfolio construction relies on in-depth research of a country's fundamentals implying several investors' trip to meet with supervisory authorities, central banks, government officials, or employers' associations and supranational entities such as the IMF, the World Bank or the OECD. This is a unique opportunity to increase awareness regarding the sustainability approach in government bonds investments from an investor point of view, and to discuss and brainstorm the future ESG challenges. Our country model is at the forefront of the dialogue between investors and sovereigns to highlight the national relative strengths and weaknesses.

The aim of these meetings is not to elaborate on the country sustainable model, but rather explain how the output of DPAM works and dialogue with the different countries in order to:

- **Explain** our approach and how it may impact our investment decision process.
- **Raise awareness** about the outcome of our models and to ultimately pass on a clear message to policy makers that country sustainability can be a key driver for investor appetite.
- **Be receptive** to any constructive feedback to enhance our models.

As democratic countries are governed by a voting electorate, and not by voting shareholders, there is clearly a different link between government bond holders and governments, compared to the relation between companies and shareholders, or even creditors. Nonetheless, **our aim is to favour funding countries that are managed in a sustainable way**, and we see it as our responsibility to inform countries about our investment process, and to some extent our country model. Hence the need for a country engagement framework.

The engagement with sovereigns is a unique opportunity to inform national treasury, debt management office or equivalent about the use-of-proceeds bonds such as green, social or sustainability government bonds (1) to encourage increase in issuance of such impact bonds and (2) to raise awareness and importance on the alignment of current and future issuance frameworks with best practices.



ILLUSTRATION NEW ZEALAND

New Zealand has been included since inception in the best half of sustainable OECD Member States.

This is mainly due to a first quartile position in Environment but also second quartile in Transparency & Democratic, Population Healthcare and wealth distribution.

The education driver shows some lag compared to the other member states.

New Zealand sustainability scorecard

NEW ZEALAND

	Score	Rank	Strength/Weakness
	66.0	10	

	Score	Rank	Strength/Weakness
TRANSPARENCY & DEMOCRATIC VALUES	23.4	13	
Tolerance for & Inclusion of immigrants	1.3	15	
Equality	3.1	11	
Institutions	7.1	2	
International relationships	4.3	20	
Rights & liberties	3.7	35	
Security	3.9	22	

	Score	Rank	Strength/Weakness
POPULATION, HEALTHCARE AND WEALTH DISTRIBUTION	10.6	14	
Life satisfaction	1.0	10	
Demography	4.1	10	
Health & wellness	2.1	33	
Inequality	1.9	24	
Wealth	1.5	10	

	Score	Rank	Strength/Weakness
ENVIRONMENT	23.0	3	
Air quality & emissions	6.5	11	
Biodiversity	5.3	5	
Climate change	7.6	7	
Energy efficiency	3.6	9	

	Score	Rank	Strength/Weakness
EDUCATION	9.0	21	
Access to advanced education and ICT	1.7	26	
Equality	2.3	23	
Innovation	1.3	28	
Investments	1.3	8	
Quality	2.5	11	

Quartile 1	Quartile 2	Quartile 3	Quartile 4
1-10	11-19	20-29	30-38

Source: DPAM 2022

New Zealand could be theoretically pointed out by some labels' rules, such as the rules of the Belgian Towards Sustainability label, due to the absence of some International Labour Organization conventions not ratified. Indeed, New Zealand has ratified 6 out of the 8 conventions considered as essential: convention 87 and 138 have not been ratified.



ILLUSTRATION NEW ZEALAND

Nevertheless, based on the listed arguments and the discussion we had with New Zealand Debt Management Office, **we consider that the principles of freedom of association and protection of the rights to organize (87) and the minimum age (138) are covered by different regulations and practices.**

Arguments:

- 1 New Zealand has expressed no intention of ratifying either the Freedom of Association and Protection of the Right to Organise Convention, (no. 87), nor the Minimum Age for Admission to Employment Convention, (No. 138).
- 2 New Zealand is also ratifying a number of other important labour-relevant international treaties such as International Covenant on Economic, Social and Cultural Rights (ICESCR) (of which article 8 is on trade unions); International Covenant on Civil and Political Rights (ICCPR) (of which article 22 on trade unions); Convention on the Rights of the Child (UNCROC) (General reservation and articles 32(2), on the minimum age of employment) and the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW - The reservation against the recruitment or service of women in armed combat or situations of violence was withdrawn in relation to NZ in 2008).
- 3 Furthermore, Labour rights in New Zealand are largely covered by both statutes, particularly the Employment Relations Act 2000, and common law (including cases, judicial decisions and tribunal decision). The Ministry of Business, Innovation and Employment carries out most of the daily administrative functions surrounding labour rights and their practical application in the state.
- 4 New Zealand is committed to several international institutions and treaties and is widely regarded as one of the world's pioneers in terms of enforcement and protection of labour rights and obligations.

More particularly, regarding Freedom of association and protection of the rights to organize Trade unions:

Section 110 of the ER Act prohibits employers from discriminating against employees for their involvement (or non-involvement) in a union or other employees organisation. The ER Act acknowledges that there is an "inherent inequality of power in employment relationships" and promotes collective bargaining (Section 3) as a way of evening up the power disparity between employers and employees. It also "recognise(s) the role of unions in promoting their members' collective employment interests" in Section 12. Other important recognitions contained in the Act include:[4]

- Part 4: Recognises the operation of unions generally;
- Part 5: Recognises the right to collective bargaining, and;
- Part 8: Recognises the right to strike.
- Right to association: Under Part 3 of the ER Act trade unions in New Zealand have the right to association: 'Employees have the freedom to choose whether or not to form a union or be members of a union for the purpose of advancing their collective employment interests; and no person may, in relation to employment issues, confer any preference or apply any undue influence, directly or indirectly, on another person because the other person is or is not a member of a union.'



ILLUSTRATION NEW ZEALAND

More particularly, regarding minimum age:

In New Zealand there is **no general minimum age** for employment, but there are rules around the timing and type of work young people can do. People under the age of 16 cannot work before 6am or after 10pm. They are legally required to attend school and working must not prevent or interfere. Concerning the type of work, people under 18 cannot work in bars, and under 15 cannot use heavy machinery or do heavy lifting, for instance.

With the different other international treaties ratified which cover the topic, **we feel confident that New Zealand is not in violation of this fundamental right**. It remains vital for us that **fundamental qualitative assessment of country** complements the quantitative scores resulting of the country sustainability model.

Engaging with the countries in which we invest is essential in our commitment to sustainable finance.

Over the last semester, we had the opportunity to engage with the Head and Principal strategist of the New Zealand Debt Management Office and the Chief Executive New Zealand Local Government Funding Agency. It was an opportunity to present our model and explain the country's key strengths and areas for improvement. Furthermore, we discussed **the Green Agenda of New Zealand**, in particular their views on their green bond program as well its importance in the funding program.

Green bonds are a new source of funding but do not represent additional funds for the Crown. They will be issued as part of their current Funding program, with no additional borrowing. These will help to ensure **high quality government projects** with robust environmental outcomes. However, it is extremely important to keep monitoring and report the use of proceeds.

It was a relevant discussion to highlight our expectations regarding green bonds and notably **the importance of alignment** between the issuer country and its environmental/climate policies and the green project targeted by the use of proceeds. We also highlighted the most important criteria to assess green bonds: the clear use of proceeds (eligibility of the projects, decision-making process), disclosure of documentation, approved verifier and management of proceeds i.e. tracking proceeds.

The design of the green bond programme will be informed by international best practices and the consideration of New Zealand's specific elements. Joint structuring advisors have been appointed to support development of the framework. **The inaugural green bond issuance is expected in late 2022**. We plan a second meeting to dive further into our country model and the key elements of our green bond policy.

OUR COMMITMENT TO SUSTAINABILITY

Being a responsible investor goes beyond offering sustainable and responsible products; it is a **global commitment at company level** translated into a coherent approach. ESG factors are environmental, social or governance characteristics that may have a positive or negative impact on the financial performance or solvency of an entity, be it sovereign or individual.

DPAM is committed to act as a sustainable and responsible market participant. **Our engagement is threefold:** uphold fundamental rights, avoid controversial activities and be a responsible stakeholder by engaging with companies to foster best practices & evolutions bringing sustainable solutions to ESG challenges.

Our commitment



Defend the basic and fundamental rights

- Human Rights, Labour Rights, Fight against Corruption and Protection of Environment



Express an opinion on controversial activities

- No financing of usual suspects
- Clear controversial activity policy & Engagement on controversial issues
- Avoid controversies that may affect reputation, long term growth and investments



Be a responsible stakeholder and promote transparency

- Bring sustainable solutions to ESG challenges
- Engage with issuers, promote best practices and improvements

We are convinced of the risk/return optimisation that comes with ESG integration. We see sustainability challenges as risks and opportunities. We use ESG factors to assess them in our investment decisions. We are committed to the European Commission's 2030-2050 program for **sustainable and inclusive growth**.

The asset management industry is an impactful gear in the financial system. We want to take up our responsibility here. As a result, we consider it is important to define well the ESG factors, priorities and targets that are **material**.

Conviction & commitment

The last decades brought on a lot of challenges. We firmly believe that **sound** corporate governance, a clear **understanding** of current/future environmental challenges and **respect** for social norms are drivers for long-term sustainable performance. This vision is integrated in our mission and value statement.

Our goal is to offer leading expertise and guard our shared values and beliefs. Environmental, Social and Governance (ESG) considerations are integrated into our value proposition, our fundamental research and our investment processes.

Member & signatory

To prove our commitment to long-term sustainable financial management, we are a signatory to various organisations. These all advocate responsible investments and offer continuous insights into ESG challenges and opportunities.

We are part of two key initiatives on shareholder responsibility and the fight against climate change: **PRI (since 2011)** and **Net Zero Asset Managers initiative (since 2022)**.

We have been supporters of the TCFD recommendations since 2018. In addition, we joined the Climate Action 100+ in 2019. That same year, we also became a signatory of FAIRR, a collaborative engagement initiative which seeks to decrease the environmental impact of the food value chain by encouraging the use of sustainable proteins within food products.

In June 2020, we decided to support the Investor Alliance for Human Rights, a collective action platform for responsible investments that is grounded in the respect for people's fundamental rights. Because the environment and biodiversity are such urgent global concerns, we have been supporters of the Finance for Biodiversity Pledge since December 2020. This Pledge calls on global leaders to protect and restore biodiversity through their financial activities and investments decisions.



OVER A 20 YEAR TRACK RECORD
in sustainable investing



SIGNATORY OF UN-PRI SINCE 2011
Highest rating A+ for our expertise



PIONEER IN SUSTAINABLE SOVEREIGN DEBT
EUR 4.5 bn invested



EXERCISE OUR VOTING RIGHTS IN 604 COMPANIES
in Europe and North America



EUR 16.2 bn in **SUSTAINABLE & RESPONSIBLE INVESTMENTS**
across various asset classes
(as of end of June 2022)



In 2022 DPAM decided to join the **NET ZERO ASSET MANAGERS INITIATIVE** (273 signatures with USD 61.3 trillion in AUM)



ACTIVELY ENGAGED IN DIALOGUE WITH OVER 100 COMPANIES
regarding corporate governance practices



Supporter of TCFD **RECOMMENDATIONS** and **SIGNATORY OF THE CLIMATE ACTION 100+**

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