

SUSTAINABILITY RANKING - DEVELOPED COUNTRIES

Half-yearly report – February 2014

While SRI and ESG research on corporates from 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. The Petercam sustainability ranking is the basis of the eligible investment universe of euro denominated government bonds issued by OECD Member States. The proprietary research model, which was developed by Petercam in 2007, has the track record and credibility to assess trends and the added value of such analyses.



Sustainability ranking – February 2014

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 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.

The Petercam sustainability analysis results in a ranking of the different countries under scrutiny. Only the top 50% performers in the ranking are eligible for investment in specifically sustainable strategies.

Country	H1 14		H1 13	
	#	score	#	score
Denmark	1	71	6	71
Norway	2	69	1	74
Switzerland	3	69	2	72
Sweden	4	69	4	71
Iceland	5	68	5	72
Finland	6	68	3	72
United Kingdom	7	66	15	62
Netherlands	8	66	9	67
Luxembourg	9	66	10	66
Germany	10	65	7	68
Austria	11	64	11	65
New Zealand	12	64	8	67
Ireland	13	61	17	60
Belgium	14	61	12	63
Australia	15	61	14	62
France	16	59	16	60
Canada	17	59	13	63

Eligible country for investment

Country	H1 14		H1 13	
	#	score	#	score
Slovenia	18	58	19	58
Spain	19	57	21	57
Estonia	20	56	26	53
Japan	21	55	20	57
Portugal	22	54	22	56
Poland	23	54	27	52
United States	24	54	28	50
Korea	25	53	18	59
Italy	26	53	25	54
Czech Republic	27	53	24	55
Slovakia	28	52	23	56
Israel	29	50	30	49
Hungary	30	48	29	50
Chile	31	47	31	47
Greece	32	43	32	47
Mexico	33	37	33	44
Turkey	34	37	34	37

Non-eligible country for investment

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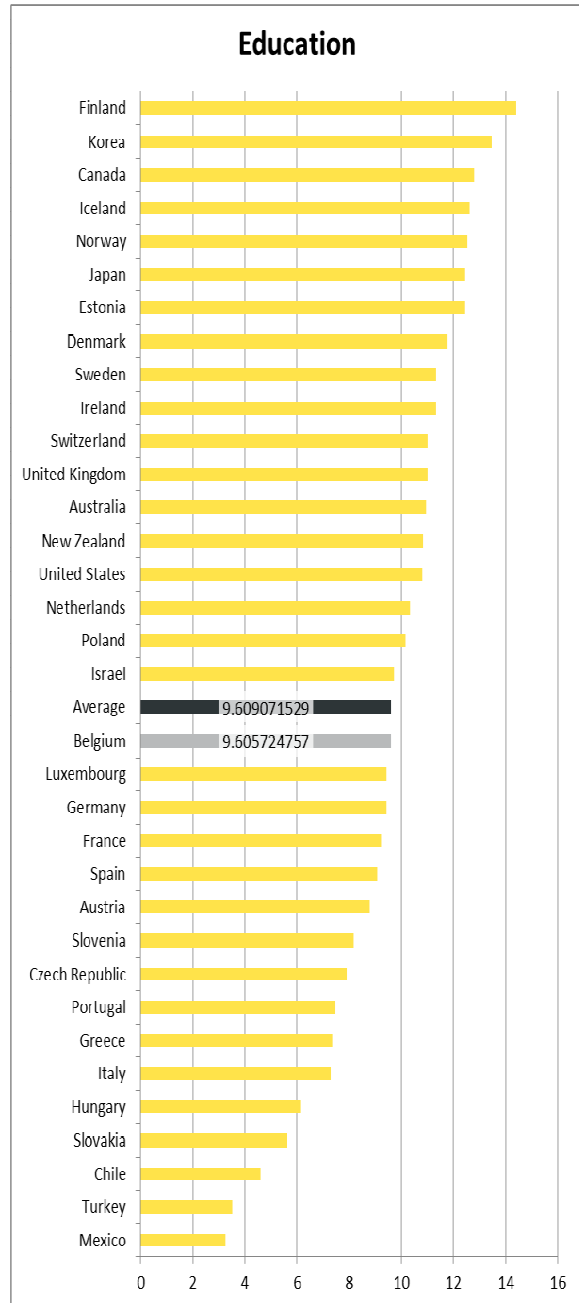
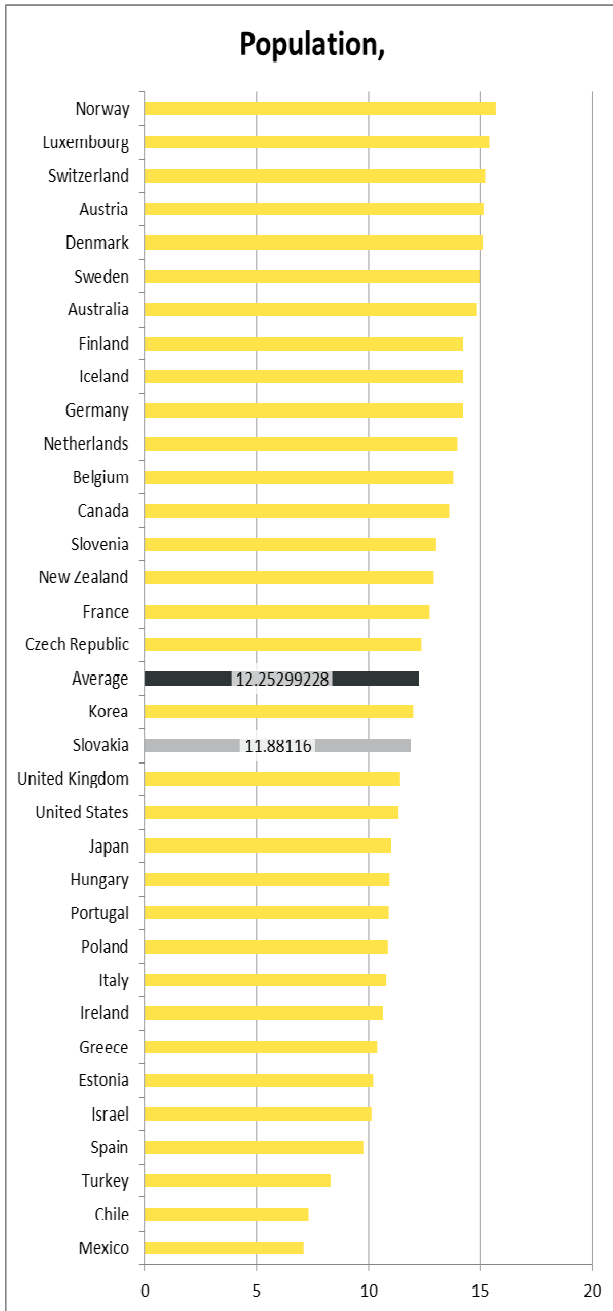
Ranking per individual sustainable criteria

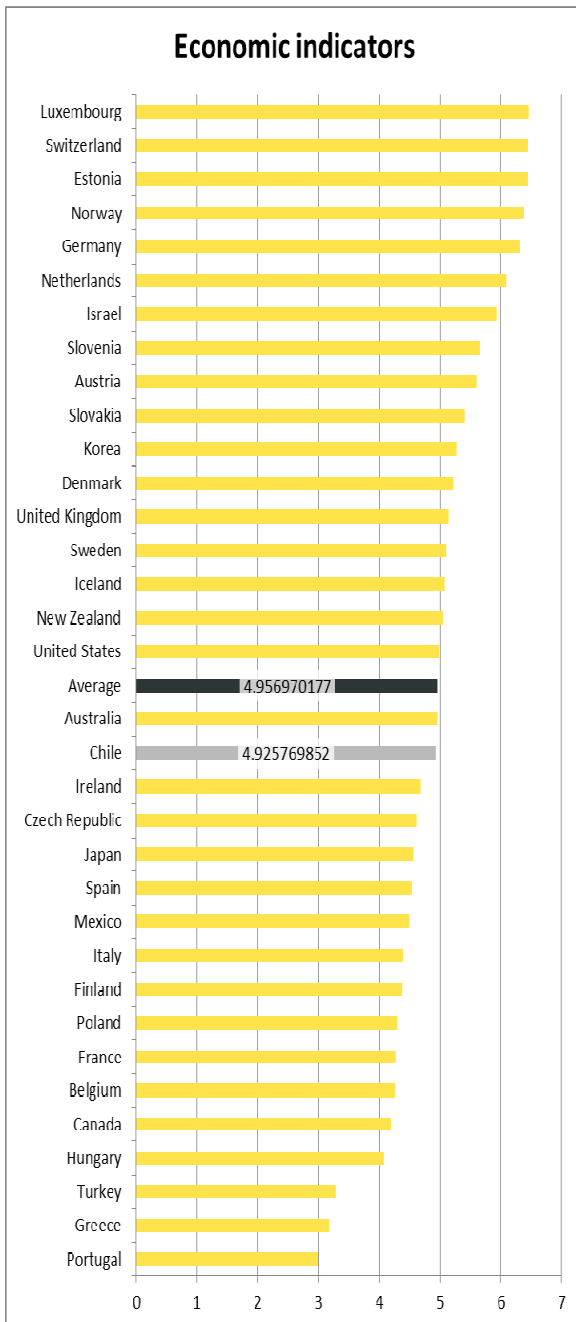


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What is sustainability?

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, invests in their personal development and welfare (education, healthcare, wealth), is respectful towards the environment and is reliable in terms of international responsibilities and commitments.

How to measure sustainability of a country?

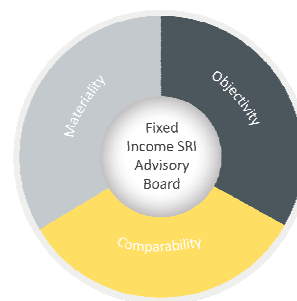
There are three main approaches to measuring the sustainability of a country, namely

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.

The lack of information and an associated model encouraged Petercam 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 (for example biodiversity relies heavily on the location and climate of a country and cannot always be changed by the latter)
3. **Comparability and objectivity**: criteria are numeric data, available from reliable sources and comparable for all countries.



¹ Brundtland Report for the United Nations – 1987

The Fixed Income SRI 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 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 six voting members, three external and three 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 SRI 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.

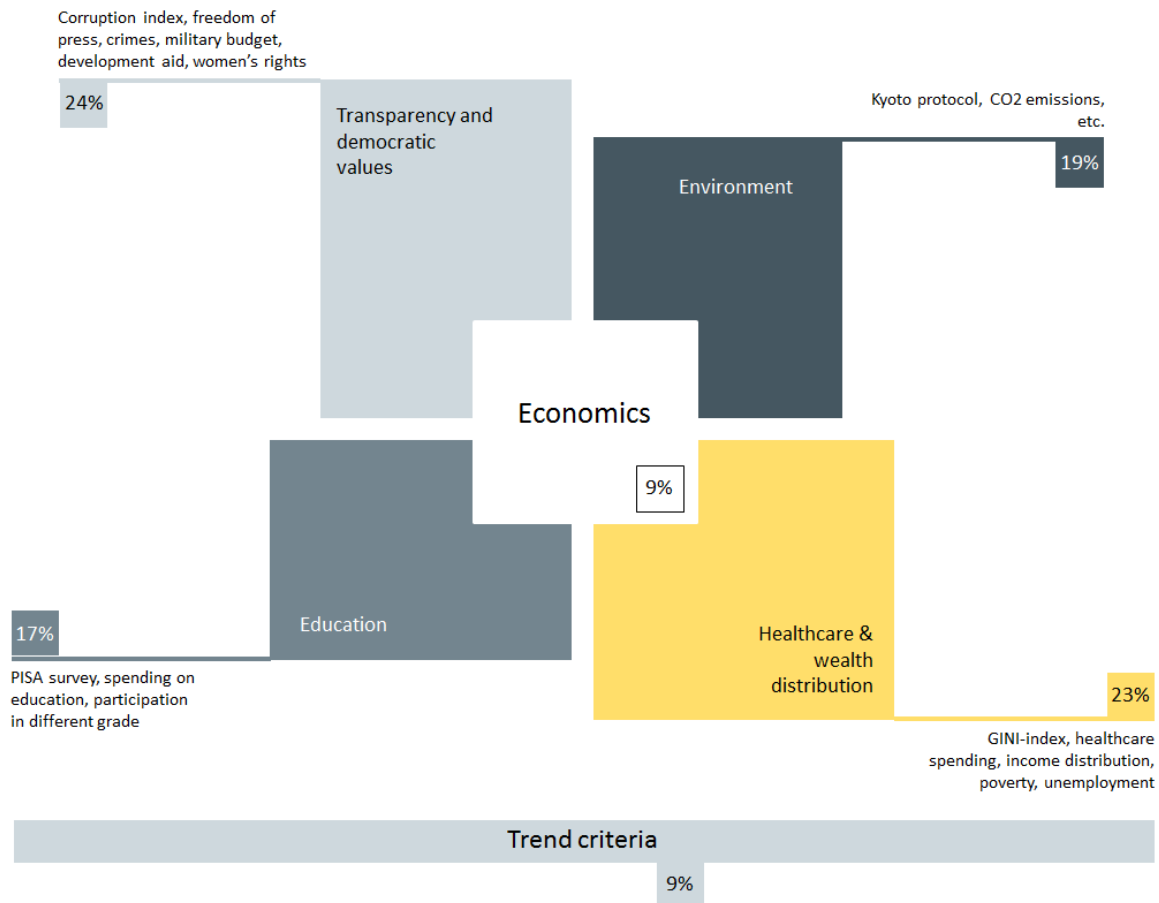
Petercam Best-in-class approach

The sustainability analysis focuses on five main key drivers: Transparency & Democratic Values, Environment, Education, Healthcare & 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 criterion (death penalty, signing Kyoto protocol, for instance) 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 scores on each criterion, using the weights which are decided by the Fixed Income SRI 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.



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. In total, the model has 59 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 SRI research process (Israel in 2010 for example).

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.

Features of the investment fund Petercam L Bonds Government Sustainable

Objective of the investment fund

Petercam L Bonds Government Sustainable invests at least two thirds of its total assets in fixed income securities, denominated in euro such as short, medium or long term domestic or international bonds, zero coupon bonds included, floating rate bonds and certificates of deposit, issued or guaranteed by a Member State of the OECD or its local authorities or international public bodies to which one or more of the Member States of the OECD belong. The investments in Petercam L Bonds Government Sustainable comply with certain investment criteria such as: social equality, environmental harmony, economically balanced governance.

Technical details

Petercam L Bonds Government Sustainable is a sub-fund of Petercam L 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 3%
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.

Petercam and its commitment towards sustainability

In September 2011 Petercam IAM **signed the UNPRI**, aiming to encourage the integration of environmental, social and governance (ESG) issues into investment decision making. Petercam is therefore committed to adopting and implementing the six relevant Principles. By signing the UNPRI principles, Petercam has publicly demonstrated its top level commitment to consistently integrating ESG factors with its fiduciary duty and to contributing to the development of a more long-term oriented and sustainable investment approach. Being part of a collaborative and dynamic global network, Petercam gains access to a better understanding and knowledge of risks and opportunities related to responsible investments.

As testimony of its commitment, Petercam also initiated a **Responsible Investment Committee**, comprising members from diversified business lines within the company who share the same willingness and pro-activity to enhance SRI and ESG issues within Petercam.

In addition, Petercam has **appointed a fully dedicated RI Co-ordinator** whose main objectives are:

1. steer all initiatives, projects and methodologies related to the SRI aspect of Petercam's investment processes
2. be responsible for streamlining initiatives regarding ESG challenges (Environmental, Social, Governance) on the Petercam group level.
3. be the privileged contact person for the UN PRI, of which Petercam became a signatory in September 2011 and for other stakeholders (Beama, Eurosif, FIR, etc.).

Today Petercam manages **three SRI strategies**: Petercam Equities Europe Sustainable on the equity side and two fixed income: Petercam L Government Sustainable (OECD universe) and Petercam L Bonds Emerging Markets Sustainable (Emerging market universe). With the latest strategy, Petercam now benefits from a global coverage of countries sustainability screening.

Furthermore, Petercam has defined its responsible investor policy and approach to integrate ESG issues within the buy-side investment research and its mainstream Investment Processes.

For more information, please contact:

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