

October 2020

## Sustainability Ranking Developed Countries

### *Country sustainability during COVID-19*

The pandemic has had two major consequences on sustainability assessment:



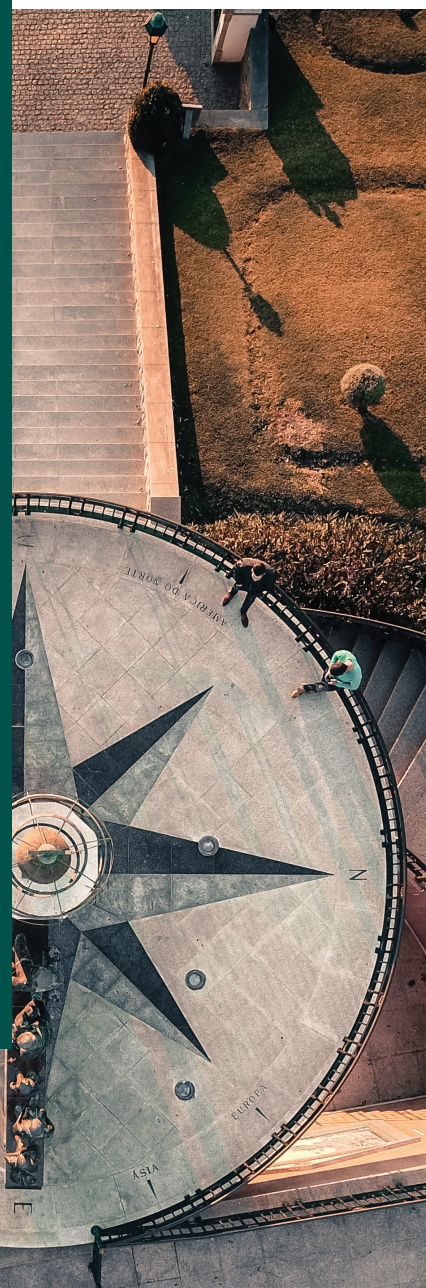
Collecting and analysing data has become significantly harder, especially in emerging economies.



The majority of positive trends of sustainable development (or SDG's) have been reversed by the pandemic.

In addition, the COVID-19 pandemic has highlighted the significance of several indicators in our proprietary model impacting the outcome of the ranking: DPT immunization, the lack of sanitary facilities in 3 billion people's homes, prison overcrowding in 60% of countries, and water scarcity.

We should look at the aftermath of 2008 to draw useful parallels. **The continued assessment of sustainability at a country level remains as essential as ever.**



*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 DPAM in 2007, has the track record and credibility to assess trends and the added value of such analyses.*

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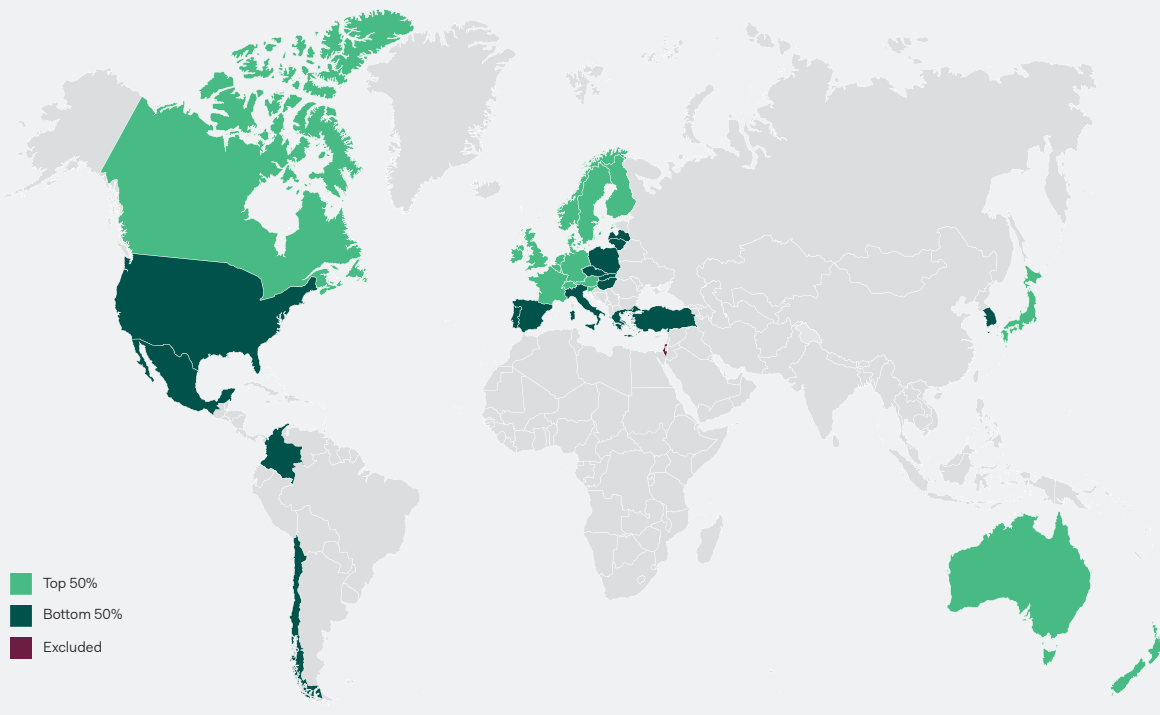
## Sustainability ranking – October 2020

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 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, October 2020

## Sustainable country ranking of OECD member states

Eligible country for investment	H2 20		H1 20	
	#	score	#	score
Denmark	1	74	3	69
Norway	2	71	2	70
Sweden	3	71	1	70
Switzerland	4	70	4	68
New Zealand	5	70	11	63
Finland	6	69	5	67
Canada	7	67	8	64
Austria	8	67	10	63
Netherlands	9	66	7	64
United Kingdom	10	65	9	64
Germany	11	65	13	61
Ireland	12	64	14	60
Australia	13	63	12	62
Luxembourg	14	63	17	59
Japan	15	63	18	59
Belgium	16	62	15	60
France	17	60	18	63
Slovenia	18	60	19	63

Non-Eligible country for investment	H2 20		H1 20	
	#	score	#	score
Portugal	21	59	22	56
United States	22	58	23	56
South Korea	23	58	26	53
Czech Republic	24	57	21	57
Spain	25	55	24	54
Poland	26	55	27	53
Italy	27	54	30	50
Latvia	28	52	29	51
Lithuania	29	52	28	51
Slovakia	30	52	25	53
Hungary	31	50	32	48
Chile	32	47	33	45
Greece	33	46	34	41
Mexico	34	37	36	35
Colombia	35	37	-	-
Turkey	36	35	35	36

Source: DPAM, October 2020

*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 needs.

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.

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

**Bart Haeck**  
Journalist at  
Mediafin

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

**Jan Schaerlaekens**  
Deputy at  
Brussels Parliament

**Thomas Bauler**  
Assistant Professor at  
ULB-IGEAT (Brussels)



### INTERNAL MEMBERS

**Ophélie Mortier**  
RI Strategist  
DPAM

**Ives Hup**  
Country Head France  
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.

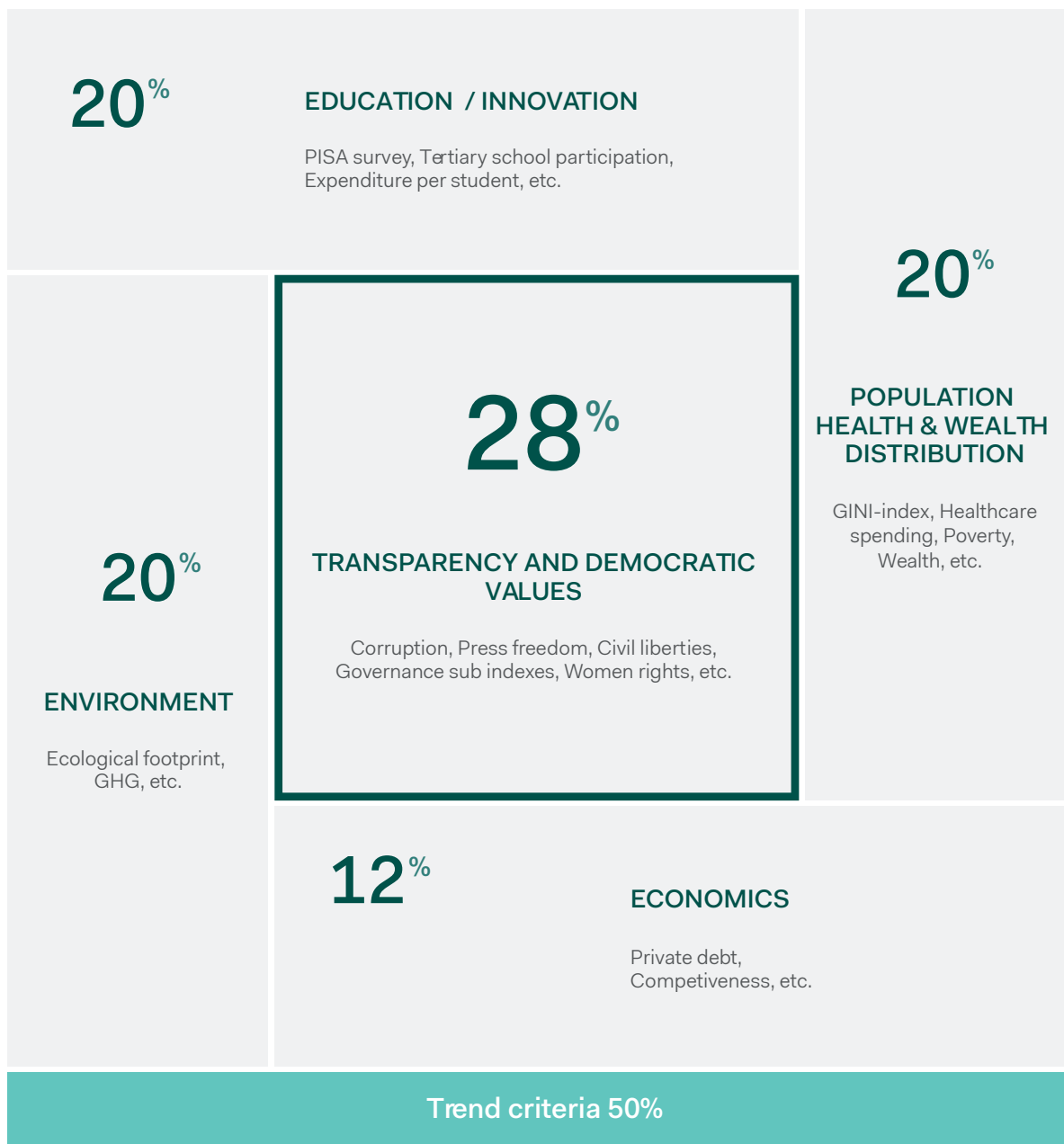
The Belgian department of foreign affairs also warns EU citizens and companies to be aware of the fact that economic or financial activities related to the settlements can cause reputation damage. The FISAB is aware of the fact that Israel claims that there is no violation of international law because 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-effort approach*

The sustainability analysis focuses on five main key drivers: Transparency & Democratic Values, Environment, Education & Innovation, 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 or the signing of the Ottawa Convention, for example) 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 Sustainability Advisory Board. The selection process results in a ranking of the 36 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 50% 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.



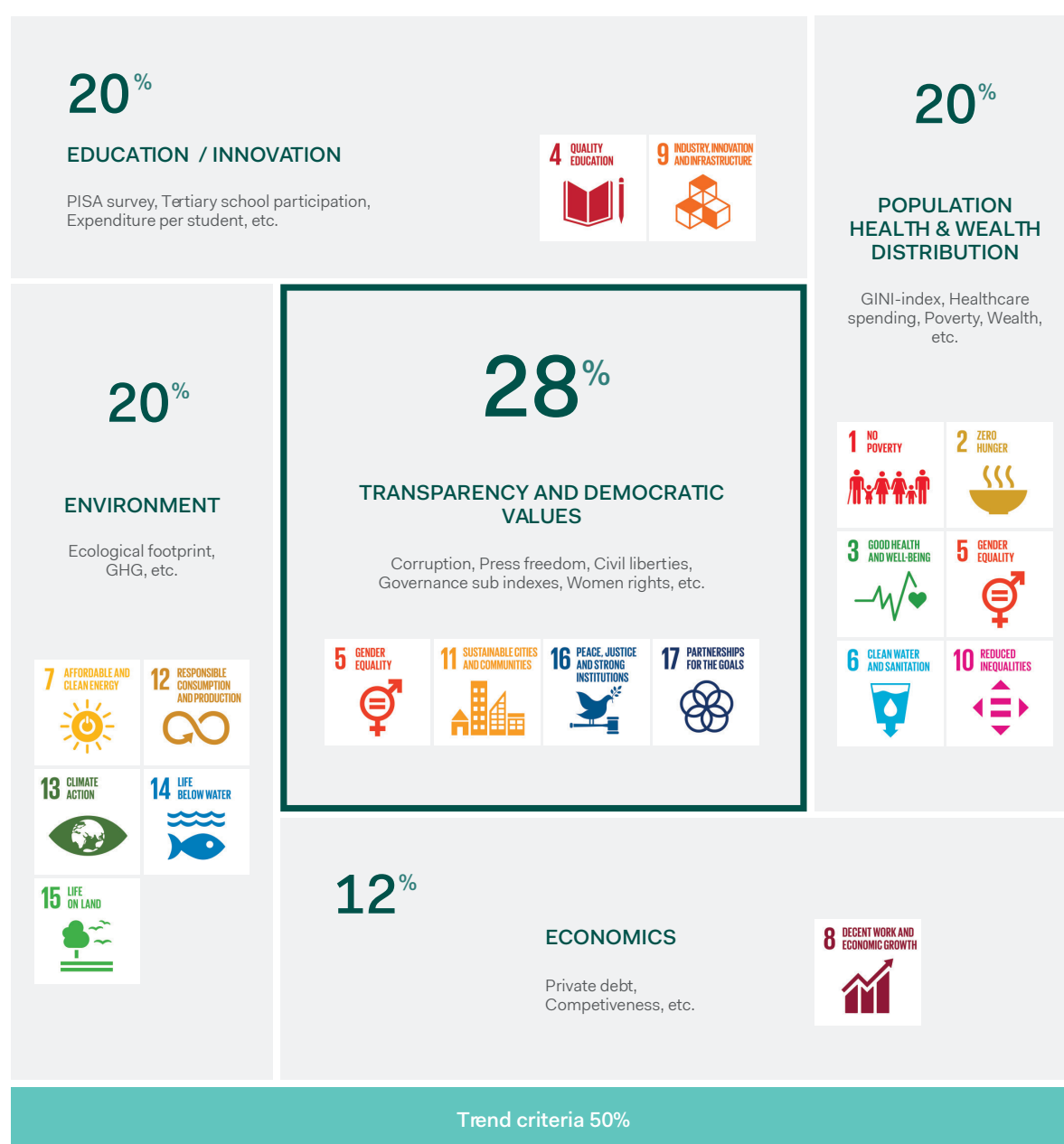


# The model predates the Sustainable Development Goals

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.



## *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 an holistic view*

Our sustainability country model relies on five dimensions namely (1) transparency and democratic values, (2) environment, (3) population, health and wealth distribution, (4) education and innovation and (5) economics. This does not hide the high interconnectivity between these five closely 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.





	2008	2014	2020
Sustainability score	62,6	66,4	65
Sustainability ranking	11	9	11
S&P ranking	AAA	AAA	AAA

Source: DPAM

Germany sustainability scorecard (October 2020)			
	Quartile 1 1 to 9	Quartile 2 10 to 18	Quartile 3 19 to 27
	Quartile 4 28 to 36		
	Score	Rank	Strength / Weakness
	64.54	12	
	Score	Rank	Strength / Weakness
TRANSPARENCY & DEMOCRATIC VALUES	22.09	11	
Equality	2.05	20	
Institutions	4.33	9	
International relationships	3.79	7	
Rights & liberties	6.36	9	
Security	3.17	12	
Tolerance for & Inclusion of immigrants	2.38	24	

Source: DPAM proprietary sustainability model



## Germany sustainability scorecard (October 2020)

	Quartile 1	Quartile 2	Quartile 3	Quartile 4
	1 to 9	10 to 18	19 to 27	28 to 35
	Score	Rank	Strength / Weakness	
ENVIRONMENT	12.26	9		
Air quality & emissions	3.83	20		
Biodiversity	2.66	6		
Climate change	3.85	8		
Energy efficiency	1.93	20		
	Score	Rank	Strength / Weakness	
ECONOMIC INDICATORS	7.59	10		
Economic	7.59	10		
	Score	Rank	Strength / Weakness	
POPULATION, HEALTHCARE AND WEALTH DISTRIBUTION	12.30	10		
Demography	0.60	13		
Health & wellness	4.96	8		
Inequality	3.08	15		
Wealth	2.39	15		
Life satisfaction	1.28	17		
	Score	Rank	Strength / Weakness	
EDUCATION	10.29	26		
Innovation	4.7	7		
Quality	2.52	19		
Access to advanced education and ICT	1.99	22		
Investments	0.32	31		
Equality (Edu)	0.76	37		

Source: DPAM proprietary sustainability model

Scoring mainly in the second quartile, Germany's strengths are notably in transparency and democratic values like institutions, international relationships and rights & liberties. Its population's health & wellness is also an area of strength, which could explain the sound management of the sanitary crisis. Indeed, the survey from the Economist Intelligence Unit (EIU) puts Germany's management the public health emergency amongst the top performers.



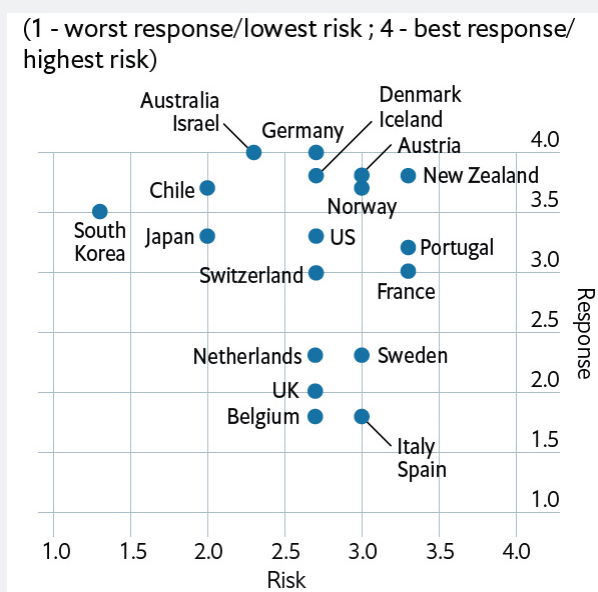
## ILLUSTRATION GERMANY

The EIU has defined a couple of indicators, on which to base their assessment of countries' crisis management.

The first axis looks at the quality of a country's response to the crisis. It focuses on the number of tests (test per million people), the provision of non COVID-19 healthcare (share of cancer-related surgeries cancelled) and the death rate (excess deaths per million people).

The second axis looks at the risk factors, such as obesity prevalence, the share of population over 65, and the international arrivals (number of international arrivals as a share of the population). We should note that the obesity prevalence was already included in DPAM's proprietary model since its inception. Moreover, the share of population over 65 was also indirectly incorporated in our model through the ageing dependency ratio.

*Correlation matrix between quality of response and risk factors*



Source: the Economist Intelligence Unit

The ranking attempt provides an assessment, albeit somewhat imperfect and subjective. Nevertheless, it remains relevant to put draw some parallels between this assessment and DPAM's sustainability ranking. The usual suspects at the top of our ranking are, unsurprisingly, also those which are considered the best managers of this crisis.



## ILLUSTRATION GERMANY

### Ranking of management success of the sanitary crisis

1 - worst response/lowest risk ; 4 - best response/highest risk	Quality of response			Risk factors			Assessment	
	Tests	Provision of non Covid-19 healthcare	Death rate	Obesity prevalence	Share of population aged 65+	International arrivals	Score	Category
Australia	4	4	4	3	3	1	3.44	Very good
Austria	4	3	4	2	3	4	3.56	Very good
Belgium	4	3	1	2	3	3	2.11	Poor
Chile	3	3	4	3	2	1	3.11	Good
Denmark	4	3	4	1	3	4	3.44	Very good
France	3	3	3	2	4	4	3.11	Good
Germany	3	4	4	2	4	2	3.56	Very good
Iceland	4	3	4	2	2	4	3.44	Very good
Italy	4	3	1	1	4	4	2.22	Poor
Israel	4	4	4	3	2	2	3.44	Very good
Japan	1	3	4	1	4	1	2.89	Fair
Netherlands	2	3	2	2	3	3	2.44	Fair
New Zealand	4	3	4	4	3	3	3.67	Very good
Norway	3	3	4	2	3	4	3.44	Very good
Portugal	4	3	3	2	4	4	3.22	Good
South Korea	2	3	4	1	2	1	2.78	Fair
Spain	4	3	1	2	3	4	2.22	Poor
Sweden	3	3	2	2	4	3	2.56	Fair
Switzerland	3	3	3	1	3	4	2.89	Fair
UK	4	4	1	3	3	2	2.22	Poor
US	4	4	3	4	3	1	3.11	Good

Source: the Economist Intelligence Unit

On the **environment side**, Germany's objective to move towards a green economy has represented a key economic driver for many years.

Still, a couple of weaknesses should be highlighted here. The country is improving on several indicators, notably the decrease in CO2 emissions, the air quality improvement, the greater energy efficiency and the increase in renewable energy production. However, these efforts are insufficient, and too slow to ensure the country's alignment with a +2°C scenario.

The electric production from coal sources has decreased, but still represents 44% of the total production of electricity today. In July 2019, the government decided to phase out coal by 2038. Unfortunately, this has not yet been ratified with corresponding legislation. Although renewables represent more than a fourth of Germany's total electricity production, experts are critical of the recent setback in renewable energy expansion, particularly in the on-shore wind sector.

Regarding Germany's economic sustainability, we want to briefly mention the decrease in the youth unemployment. However, since it only affects around 5% of the German youth, this does not represent a severe concern for the country. More worrying is the increase in the age dependency ratio, which

already makes up well over 50% of the working age population (54,71%). This emphasises the ageing of the population, a phenomenon that has been known for a while and represent a major sustainability challenge for the German population going forward. It will subsequently be important to monitor notably the question of immigration, and assess how Germany would like to rely on this potential source to remedy its ageing population issue. In 2018, the country was among the top European countries total refugees and asylum seekers.



## KEY TAKEAWAYS - ILLUSTRATION GERMANY

### MAIN CONCERNS

Increase in the age dependency ratio. This phenomenon represents a major sustainability challenge for the German population going forward. Immigration could be potential solution, if managed properly.

### ENVIRONMENT

Improving on several indicators, but not fast enough. Still large amount of electricity from coal (44%). Renewables do represent +25% of energy production, but have also experienced some setbacks lately.

### ACHIEVEMENTS

- Impressive stability in the sustainability ranking since inception of the model
- Further decrease in (already low) youth unemployment
- Strengths in transparency and democratic values

In addition, the population's health & wellness is also an area of strength, which could explain the relative sound management of the sanitary crisis.

# *DPAM and its commitment towards sustainability*

DPAM 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**



### **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 companies, promote best practices and improvements

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

DPAM'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 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.



## Responsible ownership: making its voice heard

As a shareholder and economic actor, DPAM bears a personal social responsibility:

- Ensuring that the rights of shareholders and other stakeholders are respected. DPAM 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.

DPAM 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.



**OVER A 18 YEAR TRACK RECORD**  
in sustainable investing



**SIGNATORY OF UN-PRI SINCE 2011**  
Highest rating A+ for our expertise for 4 consecutive years.



**PIONEER IN SUSTAINABLE SOVEREIGN DEBT**  
over EUR 2.5 bn invested



**OVER EUR 12 bn IN SUSTAINABLE STRATEGIES,**  
across various asset classes



**EXERCISE OUR VOTING RIGHTS IN 571 COMPANIES**  
in Europe and North America



All sustainable funds accredited with both the **INDEPENDENT LUXFLAG ESG LABEL** and the **FEBELFIN TOWARDS SUSTAINABILITY LABEL**



**ACTIVELY ENGAGED IN DIALOGUE WITH OVER 170 COMPANIES**  
regarding corporate governance practices



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

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