DPAM

DEGROOF PETERCAM **ASSET MANAGEMENT**

ESG LUXFLAG Label

TOWARDS SUSTAINABILITY

APRIL 2021

SUSTAINABILITY RANKING
EMERGING COUNTRIES

THE IMPACT OF THE **HEALTH CRISIS**

TRANSPARENCY AND DEMOCRATIC VALUES

The titles of Freedom House or Democracy Index reports have highlighted **the deterioration of civil rights and freedoms** over the last fifteen years. **The health crisis has been instrumentalised** by authoritarian regimes to reinforce dictatorship and the curtailment of individual rights. Only 8.4% of the population is living in a full democracy, while 35.6% live in severe authoritarian regimes.

ENVIRONMENT

The climate crisis is still very present and the destruction of tropical forests is accelerating. Agricultural expansion remains the main factor in deforestation and land fragmentation. The transformation of our food systems is essential.

EDUCATION

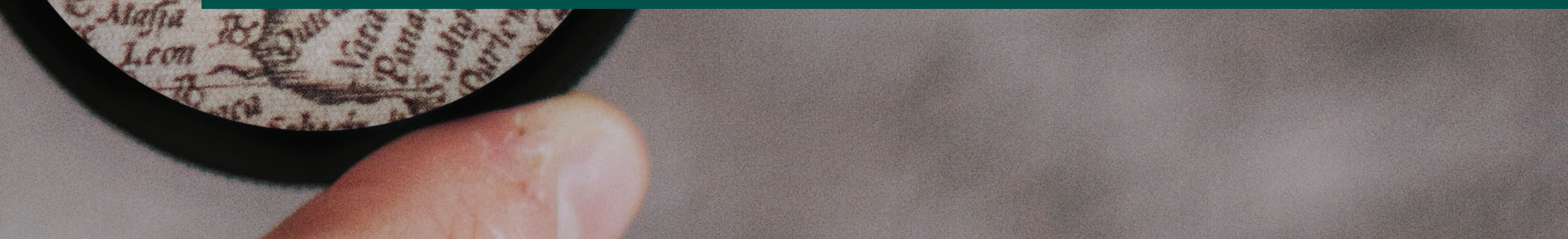
The initial impact of the health crisis is significant in terms of economic contraction, private debt and sustainability in general, especially on healthcare and **education** pillars. There is cause for concern for all countries, particularly the low- and middle-income ones. UNICEF speaks of a global education disaster and a risk of a lost generation. However, there is still **hope for the mitigation** of the effects of this debt crisis and the impact on basic social spending.

HEALTH, POPULATION AND WEALTH DISTRIBUTION

2020 ended with the annual mortality rate risen by almost 4% and marks a significant loss for social welfare. The implications of the health crisis have created economic insecurity, increased stress and anxiety and imposed a significant change in lifestyle. It has also **increased social inequalities** at a time when the European Union's growth strategy aims to be inclusive and offer equitable opportunities.

ECONOMICS

The contraction of global GDP by almost 5% in 2020 is leading to one of the biggest crises in recent generations. Job vacancies remain at least 20% below their standard level. There is a need to **revitalise human capital**.



Emerging economies are generally considered to have high potential, notably due to their young and growing population. Although most are not always seen as being sustainable or having a democratic process, 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 ratings 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 7.8 billion. 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 migratory movements 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 DPAM has gained in the sustainability analysis of OECD states has led to a sustainability model designed for emerging markets which incorporates the specifics of these countries.

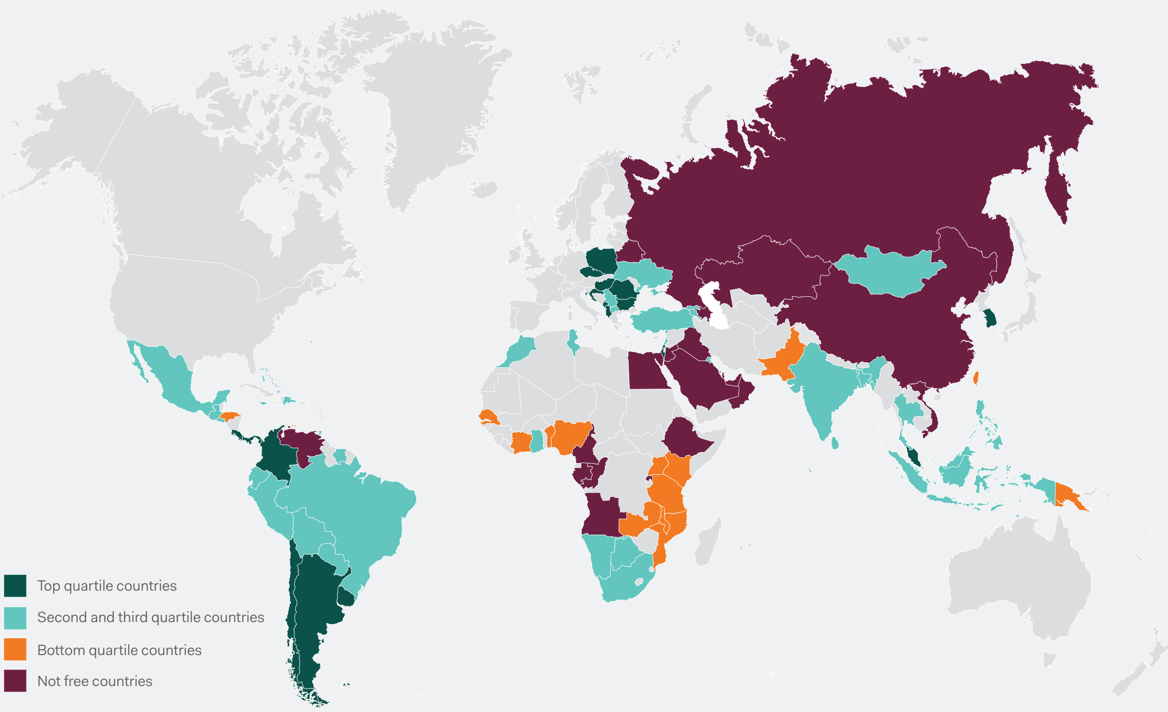
SUSTAINABILITY RANKING – APRIL 2021

The starting universe is composed of 90 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 of their 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.

Emerging Markets



Source: DPAM, April 2021

Sustainable country ranking of Emerging Markets member states

#	Top Quartile	H1 2021	H1 2020
1	Singapore	71	71
2	Czech Republic	68	70
3	Poland	67	68
4	Uruguay	66	70
5	Chile	66	68
6	Croatia	66	68
7	Malaysia	65	65
8	Israel	65	68
9	South Korea	63	71
10	Costa Rica	63	69
11	Hungary	62	65
12	Bulgaria	62	61
13	Montenegro	61	61
14	Romania	60	63
15	Argentina	60	65
16	Albania	60	64
17	Colombia	59	62
18	Panama	59	62

#	2nd & 3rd Quartile	H1 2021	H1 2020
19	Ecuador	58	62
20	Thailand	58	57
21	Macedonia	58	64
22	Peru	58	63
23	Brazil	58	60
24	Paraguay	58	57
25	Georgia	58	62
26	Tunisia	58	60
27	Serbia	57	58
28	Mexico	57	62
29	Dominican Republic	57	64
30	Indonesia	56	61
31	Mongolia	56	61
32	Kuwait	56	-
33	Sri Lanka	55	59
34	Bolivia	55	56
35	Suriname	55	57
36	Armenia	55	60

#	2nd & 3rd Quartile	H1 2021	H1 2020
37	Bahamas	55	57
38	Jamaica	55	58
39	Namibia	54	47
40	Ukraine	54	54
41	Turkey	54	56
42	Morocco	54	55
43	Ghana	53	55
44	South Africa	53	53
45	Trinidad and Tobago	52	50
46	Philippines	52	56
47	Botswana	51	53
48	El Salvador	50	53
49	Lebanon	50	52
50	Guatemala	50	52
51	India	50	54
52	Bangladesh	49	50

#	Bottom Quartile	H1 2021	H1 2020
53	Senegal	48	49
54	Côte d'Ivoire	48	52
55	Kenya	48	54
56	Honduras	48	50
57	Zambia	47	49
58	Malawi	47	52
59	Tanzania	45	46
60	Mozambique	44	42
61	Uganda	44	45
62	Benin	43	45
63	Pakistan	41	44
64	Papua New Guinea	39	40
65	Nigeria	38	41
66	Taiwan	-99	-99
67	Aruba	-99	-99
68	Bermuda	-99	-

#	Not free countries	H1 2021
1	Qatar	66
2	United Arab Emirates	63
3	China	62
4	Belarus	60
5	Vietnam	58
6	Oman	57
7	Kazakhstan	57
8	Russia	57
9	Bahrain	55
10	Saudi Arabia	54
11	Azerbaijan	52
12	Egypt	51
13	Rwanda	50
14	Jordan	49
15	Gabon	48
16	Iraq	47
17	Venezuela	43
18	Cameroon	40
19	Ethiopia	40
20	Angola	38
21	Congo	32

Source: DPAM, April 2021

* Constituent countries and/or overseas territories are part of the investable universe but ranked at the bottom quartile

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 the clear corrolation 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 by The Economist Intelligence Unit, which is also based on approximately twenty questions to assess the democratic level of a country. The latter is attributed the status of "democracy", "flawed democracy", "hybrid regime" or "authoritarian regime".

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' and confirmed as "authoritarian regimes". These include the United Arab Emirates, Belarus, Oman, China, Kazakhstan, Azerbaijan, Qatar, Vietnam, Rwanda, Saudi Arabia, Russia, Egypt, Bahrain, Gabon, Angola, Venuzuela, Cameroon, Congo and Ethiopia.

Studies indicate 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 the opportunities and risks linked to a country into context.

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 fully respect 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 (39 OECD countries and 90 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.

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 measuring the sustainability of a country:

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

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 or the signing of the Kyoto protocol, 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 Sustainability of the scores on each criterion, using the weights which are decided by the Fixed Income Sustainability Advisory Board.

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 selection process results in a ranking of the 90 countries. The final scoring is rounded up to avoid an excessively unstable universe as decimals are statistically irrelevant.

20%

ENVIRONMENT

Ecological footprint,
Ecological performance index, etc.

20%

EDUCATION / INNOVATION

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

28%

TRANSPARENCY AND DEMOCRATIC VALUES

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

20%

POPULATION HEALTH & WEALTH DISTRIBUTION

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

12%

ECONOMICS

Private debt,
Competiveness, 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.

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.

Principles for Responsible Investment

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 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.

SUSTAINABILITY **THEMES**

Within each driver, the FISAB has assessed the different sustainability themes measured by the indicators and their respective importance. Following the SDG's, the model is constantly reviewed to ensure the right balance between the sustainability themes.

TRANSPARENCY AND **DEMOCRATIC** VALUES

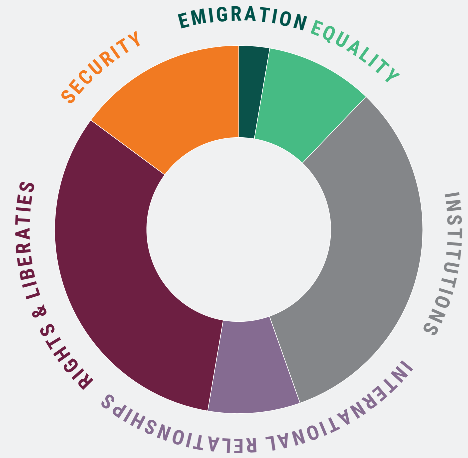
Since its inception, democratic values and governance have always been at the core of the model as a foundation to ensure the other pillars of a country's sustainability.

The titles of Freedom House or Democracy Index reports have highlighted the deterioration of civil rights and freedoms over the last fifteen years. **The health crisis and related containment have been instrumentalised** by authoritarian regimes to reinforce dictatorship and the curtailment of individual rights.

In its latest edition, the Democracy Index counted only **8.4% of the population living in what it considers a full democracy, while 35.6% live in severe authoritarian regimes**. Algeria, Burkina Faso and Mali have joined this unfortunate group. In the meantime, we can highlight the **progress made in Japan, South Korea and especially Taiwan**. In contrast, more than 70% of countries are showing a decline in their democratic status, such as France, Portugal, El Salvador and Hong Kong.

Directly linked to governance and democratic values, **corruption is also an indicator to observe closely**. It undermines democracy and also hinders the health crisis exit due to its impact on healthcare systems. The funding needed to overcome the crisis is diverted to the individualistic ends to the benefit of a few elites, but at the expense of the population as a whole. While there is no reason to speak of a significant deterioration this year, **we have seen no progress for over a decade**.

As a result, in more than two-thirds of the 180 countries and territories analysed, the perception of corruption does not reach half of the points. Protests and advocacy for greater budget transparency and strengthened governance institutions will need to be monitored to see whether or not the right direction is being taken.



DPAM is signatory of the UN-PRI

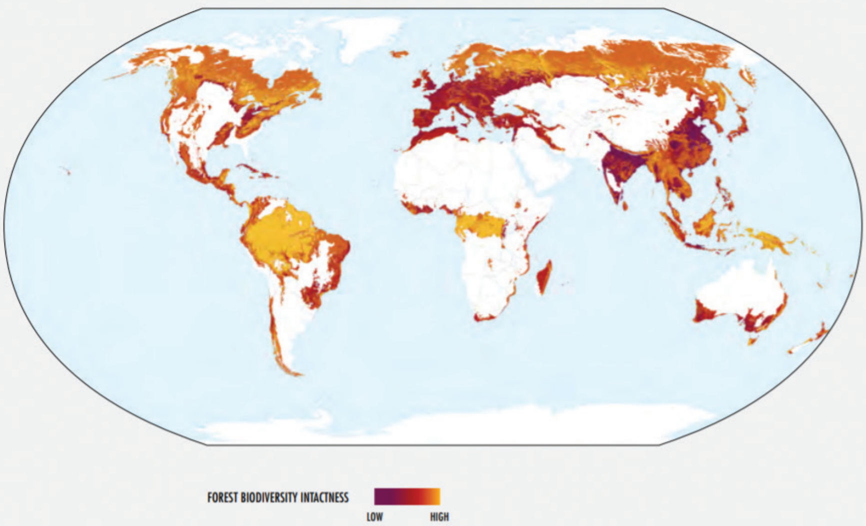
ENVIRONMENT

When Covid-19 emerged, the environment, climate and health interaction was strongly emphasised. In addition, the first severe lockdown, with almost a third of the population in containment, was also often mentioned as a solution to the climate crisis. However, this is not the case. On the one hand, the latest IEA statistics show that the drop in emissions following the first containment was only short-lived, with emissions rising again after lockdowns. On the other hand, the Covid 19 pandemic is monopolising the media, covering the front page of the daily newspapers and thus overshadowing the climate crisis.

Yet, **the climate crisis is still very present and the destruction of tropical forests in particular is accelerating**. In fact, 4.2 million hectares of primary forests were destroyed in 2020. This is 12% more than in 2019, or the total surface area of the Netherlands. This destruction is mainly concentrated in Brazil and the Congo especially due to agriculture, but also climatic conditions such as drought and high temperatures that cause fires.

Forests are an essential element for health as they absorb more than a third of the carbon emissions produced by mankind. They are also essential for **biodiversity**. As the habitat of 80% of amphibians, 75% of birds and 68% of mammals, they cover nearly 31% of the Earth's total surface. More than a third of this is the so-called primary forest, concentrated mainly in five countries (Brazil, Canada, China, Russia and the United States).

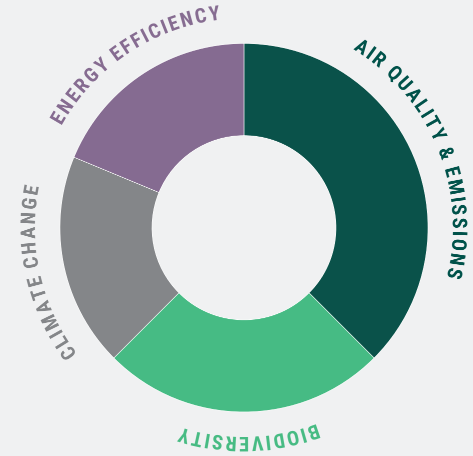
Biodiversity



Source: Hill et al., 2019

Agricultural expansion remains the main factor in deforestation and land fragmentation, leading to essential losses in biodiversity. This is why the **transformation of our food systems is essential** to limit deforestation. It is also necessary to increase the amount of protected areas, with priority given to high biodiversity value regions such as subtropical rainforests, temperate steppes and boreal coniferous forests.

The new UN programme, United Nations Decade on Ecosystem Restoration 2021-2030, is expected to **accelerate action** on ecosystem restoration around the world and can be an important source of information for our sustainability model.



EDUCATION

The initial impact of the health crisis is significant in terms of economic contraction (the IMF predicts a contraction of 4.4% for the global economy in 2020 and 0.6% above 2019 levels for global GDP in 2021), private debt, and the **impact on sustainability in general, in particular healthcare and education**. This impact is more intense for some for emerging economies.

We had already observed this impact on social budgets after the 2008 financial crisis: several countries showed deteriorations in our sustainability pillars "education" and "population, healthcare and wealth distribution". Budgetary constraints continue to weigh strongly on these pillars, as the pandemic increases the risk of a fiscal crisis in some countries. More than a quarter of low- and middle-income states are now in debt distress or at risk of it. These countries are also home to over 200 million children. This is what UNICEF condemns in its recently disclosed report *(Covid-19 and the looming debt crisis; protecting and transforming social spending for inclusive recoveries – UNICEF – April 2021)*. While this report includes mainly extremely poor countries that are often excluded from our model for lack of the required minimum democratic status, it would be wrong to assume that other countries are not concerned.

At a time when UNICEF is releasing a report on indebtedness and the clear **decline in progress on the various Sustainable Development Goals** (even a return to the 1990's-level in terms of reducing poverty and inequality in general), there is cause for concern for all countries, particularly the so-called low- and middle-income countries.

UNICEF does not hesitate to speak of a global education disaster and a risk of a lost generation. The next generation of these countries, will have to bear the burden of this debt, while suffering from a lack of education and training. These last two are **key for economic and social development**.

These contractions in education budgets are only partially visible today in the model since the available data are collected in previous years. Therefore, the statistics for 2021 and afterwards will only be integrated into the model in the next six months. This will not be grasped for another two years at the earliest. The worst has not yet been integrated into the model.

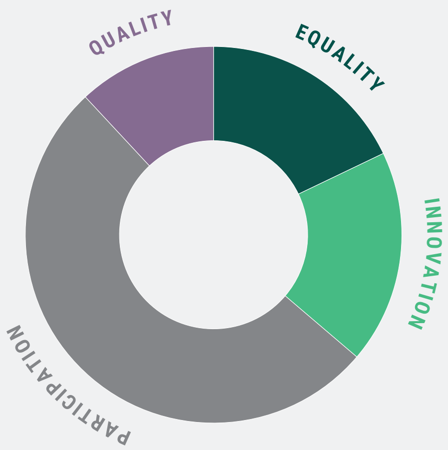
However, **there is still hope for the mitigation of the effects of this debt crisis and the impact on basic social spending**. One example is the April 2020 initiative of the G20 countries on a debt standstill policy to reduce the impact of the COVID 19 crisis or at least delay it. Indeed, the Debt Service Suspension Initiative (DSSI) allows qualified countries to suspend repayment of official bilateral credits between April 2020 and June 2021. Only a third of eligible countries are reported to have signed up to the initiative today though, and this does not exempt them from further investigations into their eligibility. As of January this year, 46 countries had requested eligibility for an amount of USD 5.7 billion of debt service relief.

In addition, the initiative does not cover commercial creditors to which middle-income countries are increasingly exposed.

More than one hundred countries have requested assistance from the International Monetary Fund (IMF) through various rapid and emergency financing instruments.

The UNICEF report recommends **a new international debt restructuring architecture**, greater **transparency** on debt and **coordinated action** by different creditors, so that budgets for social initiatives are not diverted to debt repayment, which despite low interest rates, remains and is becoming more expensive for these developing countries.

It will be **crucial to monitor education expenditures** and any information to assess the levers available to ensure that future generations are equipped to take over **sustainable and inclusive growth**.



PRI Principles for Responsible Investment

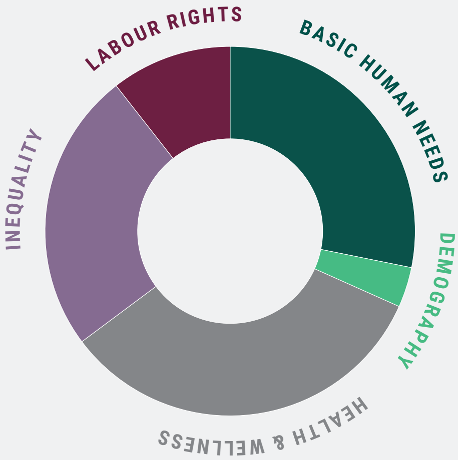
DPAM is signatory of the UN-PRI

HEALTH, POPULATION AND **WEALTH** DISTRIBUTION

The last months have been undeniably special. 2020 ended with the sad fact that the annual **mortality rate has risen by almost 4%** and marks **a significant loss for social welfare**. The health crisis and its implications have created **economic insecurity, increased stress and anxiety** and imposed a significant **change in lifestyle**, work habits, etc. The consequences of these implications have taken their toll on mental and physical health.

The health crisis has also **increased social inequalities** at a time when the European Union's growth strategy aims to be inclusive and offer equitable opportunities.

The issue of social inequality has always been well embedded in the sustainability model through different criteria to measure its different dimensions. A final study, with a somewhat limited sample size of 20 countries, makes some observations that can probably be generalised to a larger set of countries. These observations are relatively instinctive, but, again, demonstrate **the interconnection among different dimensions of sustainability** as the model attempts to capture them. On the one hand, the majority of the population in a negative wealth situation is predominantly young, income-and asset-poor, more likely to be unemployed and paying rent, and relying on private loans and credit lines. On the other hand, the level of education plays an important role on potential wealth income. It should be noted that **the higher the education level, the higher the income gap between men and women**. These different studies reinforce our conviction to keep these criteria at the heart of our sustainability model for countries.



ECONOMICS

The contraction of global GDP by almost 5% in 2020 is leading to one of the biggest crises in recent generations. **Job vacancies remain at least 20% below their standard level**, with the young, the lowest income and the least educated population most at risk of losing working hours or even their jobs. There is **a need to revitalise human capital**, in particular by addressing skill mismatches and talent shortages. Inclusive growth, youth unemployment, long-term unemployment and old age dependency ratios need to be addressed by investing in training and re-integration programmes to better respond to new job opportunities.

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.

PRI Principles for Responsible Investment

DPAM is signatory of the UN-PRI

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.

As sovereign bond holders, we rely 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 agencies. This is the opportunity to increase awareness regarding sustainability approach in government bond investments and to discuss and challenge these on a positive agenda regarding ESG challenges. DPAM can have extended conversations with issuers (national debt management agencies) about DPAM's sustainability model and what are the expectations for a sustainable country. In some cases they can discuss the national strengths and weaknesses identified in the proprietary model.

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 20 YEAR TRACK RECORD
in sustainable investing

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

PIONEER IN SUSTAINABLE SOVEREIGN DEBT
over EUR 3 bn invested

OVER EUR 14.9 bn IN SUSTAINABLE STRATEGIES,
across various asset classes

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

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

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

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

PRI Principles for Responsible Investment

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