DEGROOF PETERCAM **ASSET MANAGEMENT**

DECEMBER 2021

SUSTAINABILITY RANKING **EMERGING COUNTRIES**

A FAIR **TRANSITION**

COP26 summit was disappointing. Expectations were high and there was one keyword in mind: **Acceleration** (of the ambitions to reduce greenhouse gas emissions). But this acceleration is essentially being pushed and demanded by the most developed countries. For developing countries, it is a different story.

Emerging economies have been asking for financial support to enable them to commit to ambitious climate targets and carbon emission reductions for a while. The so-called principle of "**a fair transition**". However, today, the promises have hardly been fulfilled. Indeed, the implementation plan for climate finance is probably the biggest disappointment of the summit, especially for emerging economies. Several experts have described COP 26 as a conference of rich countries for rich countries.

Climate risk is a key risk for several of these developing countries; their economies depend largely on emitting activities (commodities, gas, oil, etc.) and they also suffer from important physical risks being in forefront of climate change consequences.

On the one hand, **developed countries are still far from the alignment with the Paris Agreement**. Australia and Canada are clear examples. It is undoubtedly all the better if they raise their ambitions, but unless other binding measures are adopted, such as sanctions or compulsory and precise reporting, this will remain in the realm of ambition and promise.

On the other hand, we face **the major issue of reducing emissions from emerging economies**, and in particular the inclusion of imported emissions for developed countries. The climate problem is international, and it knows no borders.

This brings us to the Carbon Borders Adjustment Mechanism (CBAM) that the EU aims to adopt soon. In continuity with the Emissions Trading Schemes, which has supported the carbon transition over the last decade (with ups and downs), **Europe aims to include the imported carbon emissions to tackle climate change**. As a tax on carbon emissions of imported good, the aim is to encourage other countries to reduce the carbon intensity of production and to disincentivize the import of cheaper goods with a high carbon footprint in Europe, avoiding the so-called carbon leakage.

The loss of competitiveness due to this new tax system could be compensated by the aid of developed countries, to facilitate a fair transition and the financial support that emerging economies need.

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 7.9 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.

PRI Principles for Responsible Investment

DPAM is signatory of the UN-PRI

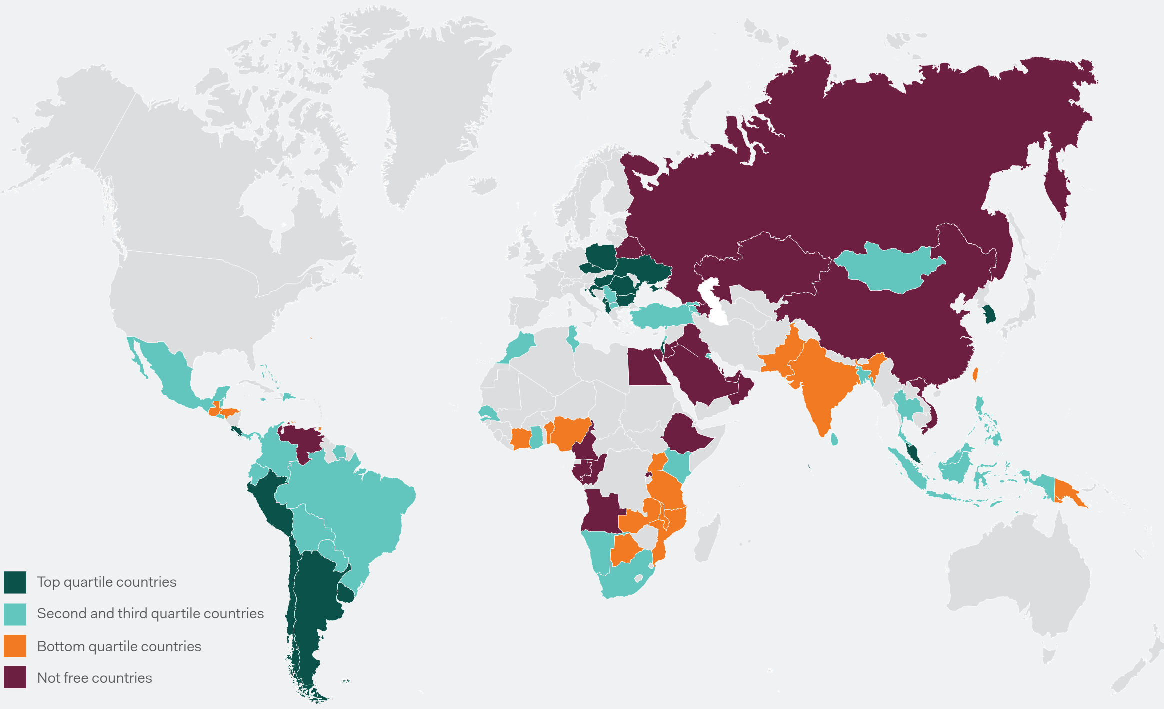
SUSTAINABILITY RANKING – OCTOBER 2021

The starting universe is composed of 89 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, October 2021

Sustainable country ranking of Emerging Markets member states

#	Top Quartile	H2 2021	H1 2021
1	Singapore	70	71
2	Czech Republic	67	68
3	South Korea	66	63
4	Croatia	66	66
5	Poland	65	67
6	Chile	65	66
7	Costa Rica	65	63
8	Uruguay	65	66
9	Israel	64	65
10	Hungary	62	62
11	Romania	61	60
12	Malaysia	60	65
13	Bulgaria	59	62
14	Albania	59	60
15	Argentina	58	60
16	Maldives	58	-
17	Montenegro	58	61
18	Ukraine	58	54
19	Peru	58	58

#	2nd & 3rd Quartile	H2 2021	H1 2021
20	Dominican Republic	57	57
21	Armenia	57	55
22	Panama	57	59
23	Ecuador	57	58
24	Thailand	57	58
25	Georgia	57	58
26	Macedonia	57	58
27	Kuwait	57	56
28	Jamaica	56	55
29	Serbia	56	57
30	Belize	56	-
31	Mongolia	55	56
32	Colombia	55	59
33	Tunisia	55	58
34	Mexico	55	57
35	Paraguay	55	58
36	Sri Lanka	54	55

#	2nd & 3rd Quartile	H2 2021	H1 2021
37	Suriname	54	55
38	Ghana	54	53
39	Indonesia	54	56
40	Namibia	53	54
41	Bahamas	53	55
42	Brazil	53	58
43	Bolivia	53	55
44	Turkey	52	54
45	Philippines	52	52
46	South Africa	52	53
47	Morocco	51	54
48	El Salvador	51	50
49	Senegal	49	48
50	Bangladesh	48	49
51	Kenya	48	48
52	Lebanon	48	50

#	Bottom Quartile	H2 2021	H1 2021
53	Botswana	47	51
54	Trinidad and Tobago	47	52
55	Guatemala	47	50
56	India	47	50
57	Malawi	46	47
58	Côte d'Ivoire	46	48
59	Honduras	45	48
60	Tanzania	44	45
61	Zambia	42	47
62	Uganda	41	44
63	Benin	41	43
64	Mozambique	41	44
65	Papua New Guinea	40	39
66	Pakistan	38	41
67	Nigeria	33	38
68	Taiwan	-99	-99

#	Not free countries	H2 2021
1	United Arab Emirates	64
2	Qatar	63
3	Belarus	58
4	Oman	55
5	China	55
6	Kazakhstan	54
7	Russia	54
8	Vietnam	52
9	Saudi Arabia	51
10	Bahrain	50
11	Egypt	50
12	Rwanda	49
13	Jordan	48
14	Azerbaijan	48
15	Venezuela	43
16	Gabon	39
17	Cameroon	38
18	Iraq	37
19	Ethiopia	36
20	Angola	35
21	Congo	27

Source: DPAM, October 2021

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.

GLOBAL **COVERAGE**

The extra-financial research performed by DPAM covers those countries into which investors may want to invest (38 OECD countries and 89 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[1].

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.

[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 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

Aleksandar Rankovic
Researcher at IDDRI
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Celine Boulenger
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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, Population, health and 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, 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 89 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

Structural unemployment,
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.

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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 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.

ILLUSTRATION UKRAINE

The country's scorecard clearly shows the main challenges of the country:

Ukraine sustainability scorecard

Quartile 1	Quartile 2	Quartile 3	Quartile 4
1 to 18	19 to 37	38 to 53	54 to 71

	Score	Rank	Strength/Weakness
	57.67	**23**	Quartile 2

	Score	Rank	Strength/Weakness
TRANSPARENCY & DEMOCRATIC VALUES	**14.67**	**43**	Quartile 3
Emigration	**0.22**	62	Quartile 4
Equality	**1.31**	19	Quartile 2
Institutions	**3.41**	56	Quartile 4
International relationships	**1.92**	45	Quartile 3
Rights & liberties	**5.13**	43	Quartile 3
Security	**2.68**	40	Quartile 3

	Score	Rank	Strength/Weakness
ENVIRONMENT	**12.05**	**55**	Quartile 4
Air quality & emissions	**4.14**	52	Quartile 3
Biodiversity	**2.90**	56	Quartile 4
Climate change	**2.11**	22	Quartile 2
Energy efficiency	**2.90**	56	Quartile 4

	Score	Rank	Strength/Weakness
ECONOMIC INDICATORS	**6.77**	**23**	Quartile 2
Economic	**6.77**	23	Quartile 2

	Score	Rank	Strength/Weakness
POPULATION, HEALTHCARE AND WEALTH DISTRIBUTION	**13.35**	**4**	Quartile 1
Basic human needs	**4.83**	9	Quartile 1
Demography	**0.04**	66	Quartile 4
Health & wellness	**4.21**	6	Quartile 1
Inequality	**4.27**	2	Quartile 1
Labour rights	**0.00**	58	Quartile 4

	Score	Rank	Strength/Weakness
EDUCATION	**10.82**	**4**	Quartile 1
Equality	**1.86**	1	Quartile 1
Innovation	**2.01**	3	Quartile 1
Participation	**6.01**	31	Quartile 2
Quality	**0.94**	30	Quartile 1

Source: DPAM proprietary sustainability model, H2 2021

While transparency and governance are impacted by corruption, security and impediments to civil liberties and rights, the population-related pillars show strong positions in basic needs, education and health, typical remnants of the former Soviet Union.

Ukraine is a former party of the Soviet bloc and like others, it had to find its way to democracy. Today, according to NGO Freedom House, the country is described as **semi-free.** For the Democracy Index published by the Economist Intelligence Unit, Ukraine is considered as **a hybrid regime.**

Since the protest-driven ouster of President Viktor Yanukovych in 2014, the country has adopted a significant number of positive reforms for a better democracy. However, in 2020 the main reforms faced a wave of active resistance that swept away some of the democratic progress achieved in recent years.

Corruption remains a major challenge for the country, despite several efforts and important measures to fight it (see below).

The issue of the autonomous region of Crimea and its Russian occupation is also a permanent source of human rights and security abuses and a considerable obstacle to the country's peaceful development. This is impacting all pillars of sustainability. Similarly, the Russian military attack in Donbas is a burden to the ongoing democratic consolidation.

To effectively fight corruption, **the country must tackle its judicial system**. This is among the most corrupt worldwide and therefore undermines the anti-corruption reforms that the country is trying to put in place.

Indeed, the Constitutional Court has attacked the cornerstones of the fight against corruption by ruling that asset declarations, political appointments, and the anti-corruption institutions themselves are unconstitutional. This is plunging the country into **a constitutional crisis** that adds to the serious social and economic challenges posed by COVID-19.

The Zelenskyy presidency suffers from significant fragmentation in national and local governing bodies. Indeed, the last regional elections in October 2020 diluted Zelenskyy's influence with the success of the regional elites. The parties of incumbent mayors and other oligarchs won a significant share of communal seats. Moreover, this difficulty for the national powers to implement some of their decisions has been reinforced by the informal power of important financial and industrial groups.

Corruption

Corruption is a systemic risk in the country, where 93.7% of the population considers it to be the country's main problem, along with the Russian conflict in Crimea. However, in the wake of the Revolution of Dignity (2013-2014), the country has taken various measures to combat the scourge and build a strong anti-corruption infrastructure. Indeed, the National Agency on Corruption Prevention (NACP) has been reformed and the National Anti-Corruption Bureau (NABU) continues to investigate high-level corruption. This bureau is responsible for receiving and investigating complaints of corruption from high-level public officials. The Specialised Anti-Corruption Prosecutor's Office (SAPO) is responsible for improving coordination and overseeing the NABU's investigations and deciding whether to prosecute.

Faced with growing resistance from the judiciary itself, the High Anti-Corruption Court (HACC), established on 11 April 2019, is boldly pursuing corruption cases and has already proven its ambitions in its judgements in 2020. It is the HACC that makes the decisions and issues the sentences when the SAPO has decided to pursue the corruption charge.

As a result, **Ukraine has moved up a few places in the Corruption Perceptions Index** and the fight against corruption remains a priority for the last government of the outsider Volodymyr Zelenskyy elected in May 2019.

Freedom of the press

Another important indicator in our proprietary model is media freedom. Most media outlets in Ukraine are free, pluralistic and without state interference. However, the financial support of their owners can lead to certain **conflicts of interest**. Thus, television is in the hands of six main media groups and represents 71% of the country's audience.

The Internet has also gained its place among the population; while less than a third of the population was connected a few years ago, **today nearly 90% of citizens have access** to it with its share of relevant information but also its risk of misinformation.

Environment

Ukraine has committed to **reducing its greenhouse gas emissions by 62% in 2019 and 65% in 2030 compared to 1990 levels**. This reduction may seem impressive. However, like many former Soviet countries, the reduction over the period is more due to the economic collapse that followed the dismantling of the Soviet Union than to the implementation of ambitious and effective climate policies.

Although one of the poorest countries in Europe, Ukraine is considered a developed country by the United Nations and is therefore not eligible for funding from the Green Climate Fund. The country is trying to negotiate special treatment with the European Union, as **a member of the so-called "energy community"** and the largest exporter of cement, steel, and electricity to the EU. The country's primary resources are covered by the border carbon tax issue.

Ukraine must think about **the development of renewable energy** (only 1.1% of the production in 2015 and less than 7% of the final electricity consumption in 2018), **nuclear energy and the exit from coal**. Environment Minister Abramovsky said recently that nuclear generation would remain at more than 50% and the exit from coal should be gradual, so as not to devastate the mining communities.

Obviously, the conflict in Crimea is an opportunity cost to the development of environmental policies and does not allow a clear control over the region and its emission reduction policy.

There is therefore still **some way to go on environmental progress**.

ILLUSTRATION UKRAINE

Population, health care and wealth distribution

As a former member of the communist bloc, the population has in theory benefited from a strong egalitarian and social regime. Thus, the country scores very well regarding basic needs. Indeed, on the issue of access to drinking water, for example, Ukraine is the only country in the "lower-middle income" economic group that is in line with the sustainable development objectives. However, the overall figure may hide significant **disparities between different regions**, with the conflict region with Russia being impacted on issues of access to basic needs.

Progress in health is reflected in a decrease in infant mortality and an increase in life expectancy (71.82 years on average). However, the decline in fertility and the ageing of the population is resulting in an increase in the old age dependency ratio with almost 49 dependents per 100 workers.

Education

If we talk about old age dependency on the working age population, it is also worth looking at the pillar of education and succession by future generations.

At first sight, **the country shows rather favorable figures in terms of education**. Firstly, in terms of expenditure in relation to GDP, it is among the most generous countries. Secondly, in terms of participation in education, both at primary and secondary level, the figures also show a near maximum participation rate with some equality between boys and girls.

However, the result of spending and school participation is **not always tangible in terms of the quality of education and the assurance of succession by future generations**.

Thus, the education system suffers from persistent challenges in terms of educational quality, inadequate skills, and a general deterioration of confidence in the system.

One of the primary sources of educational costs is the very high number of small classes, which are inefficient and costly to the system. The closure of these small classes remains a controversial issue because, on the one hand, it is politically sensitive since schools are considered the centre of the community and a source of stable employment and, on the other hand, the organisation suffers from a mismatch between the source of funding (regions) and the source of decision (community), so that a legislature can decide not to close a school without being responsible for its funding. This issue is being addressed.

Ukraine is well aware of the challenges facing its education system, particularly at secondary level. In recent years, it has adopted **a major reform programme called the New Ukrainian School**. Organised in three phases (2016-2018, 2019-2022 and 2023-2029), this programme aims primarily to train students to become creative, responsible, active, and entrepreneurial citizens with the right skills and competences to meet the challenges and developments in technology, innovation, and competitiveness that the country needs.

ILLUSTRATION UKRAINE

In summary, **Ukraine still has several major challenges to solve, as a result of its past and its dependence on the Soviet Union.** Aware of these, it is trying to put in place several important reforms and structures that have already shown their fruits and explain Ukraine's relatively good ranking in our model since inception. Indeed, the country started in the top quartile of the ranking in 2013 as at 30th position with a score of 57; it lost some seats and points over time due to the larger universe of countries and the faster and greater progress of some peers compared to the registered ones by Ukraine. **It went up to the position 18 with a total score of 58 points in the latest available ranking**.

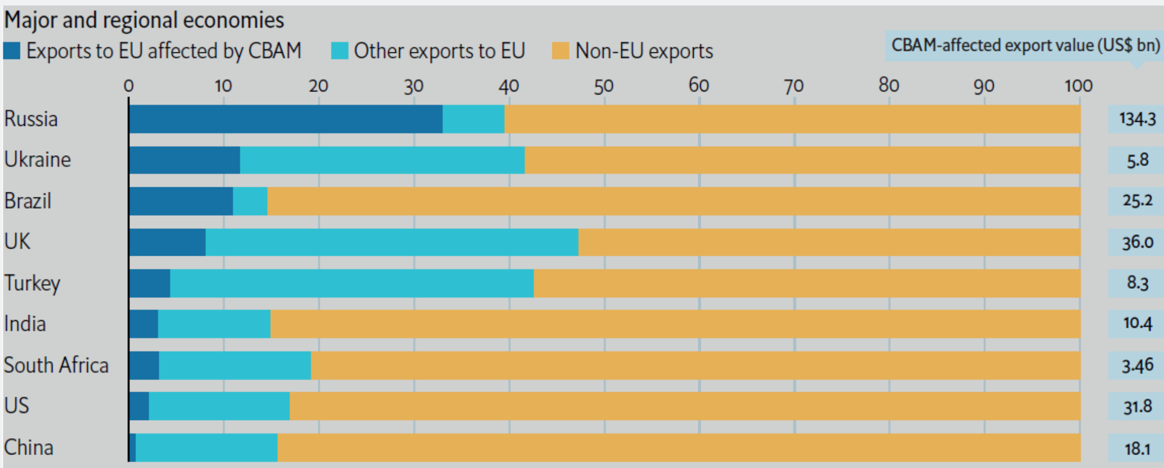
Ukraine evolution

	2013	2015	2020	2021
ranking	30	39	48	18
score	57	57	54	58

Source: DPAM

In the framework of COP 26 and on the issue of carbon taxation, we will be attentive to the discussions given the potential impact on a country such as Ukraine, which together with Russia are among the first economies **affected by the EU's taxation plans**. It will be interesting to see whether the EU will be willing to provide financial support to the economies and sectors most affected by its measures.

CBAM affected products as % of total goods exports (2019)



Source: EIU – COP 26- Examining the business environment impact of climate pledges

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

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

OVER EUR 18.3 bn IN SUSTAINABLE STRATEGIES,
across various asset classes
(as of end of November 2021)

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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DISCLAIMER

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