SUSTAINABLE & RESPONSIBLE INVESTMENT

CANDRIAM ESG COUNTRY REPORT

CANDRIAM INVESTORS GROUP
A NEW YORK LIFE COMPANY

MESSAGE FROM OUR EXPERTS

VINCENT HAMELINK,

CIO of Traditional Investments,
Member of the Group Strategic & Executive Committees

"In times of geopolitical and socio-economic uncertainty, it is time for the international investment community to write a new chapter in its history: one that takes a holistic view on the interplay between long-term development and the opportunities and risks that stem from sustainability, and one, too, that fully appreciates the socio-economic value of sustainability in investment decisions."

WIM VAN HYFTE,

Global Head of Responsible Investments and Research

"The UN Sustainable Development Goals articulate clearly the need to shift the emphasis from measuring economic development to appraising and incentivizing sustainable development. However, sovereign credit analysis typically addresses debt sustainability from a short-term financial perspective. Candriam's ESG country analysis encompasses a comprehensive country assessment that takes into account environmental, social and governance opportunities and risks, which most often fall outside the scope of conventional sovereign bond analysis as these are material drivers of long-term value-creation for fixed-income investment decisions."

FLORENT GRIFFON,

Senior SRI analyst

"A growing number of emerging countries engage in ambitious sustainability policies, notably as regards climate-change mitigation. This represents decisive progress for our planet, as their growing economic and political weight makes emerging countries' cooperation indispensable to climate-change mitigation. It is therefore more crucial than ever that emerging countries fully embrace sustainability."

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INTRODUCTION

Investment preferences and frameworks are always evolving but the global financial crisis from 2007 gave new impetus to how investors viewed the stewardship and deployment of their capital. Not just the management, the structures and processes, but also the purpose of their portfolio became an increasingly important issue.

This shift in behaviour is, to a large extent, fostered by a changing regulatory environment, with large asset owners taking a clear positive stance on sustainability investing and a shift in societal expectations on the common good.

The questioning of established financial models was both influenced, and fed in to, evolving public policy on fiduciary and governance standards. The United Nations Millennium Goals were refined to become 17 global Sustainable Development Goals (SDGs) forming an agenda to "end poverty, protect the planet and ensure prosperity for all" by 2030. Governments and other authorities started to consider how non-financial determinants such as environmental factors might be material to the pricing of financial instruments, as well as their own long term economic development potential. The 2015 Paris Climate Change agreement, signed by 196 countries, represented a major milestone in this respect. Highlighting the public responsibility of institutional investors, regulators and governments have called for the investment community to lead and commit to the realisation of these sustainability objectives.

Previously, 'ethical' investment models, enacted through a series of negative screenings of portfolio holdings, had been the main way investors could express a moral standpoint. Public support for this dimension, and investor scrutiny following a series of major corporate scandals led to greater demand for a holistic sustainability approach which takes account of the environmental or social 'externalities' until then considered 'immaterial' or not yet priced by the market.

In a 1970 New York Times Magazine article, Nobel Prize winner Milton Friedman wrote:

> *There is one and only one social responsibility of business: to increase its profits … so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.*

When this opinion is quoted, the argument most often stops at "profits". Unfortunately, history proved that maximizing shareholder value in the myopic spirit of making money is more the disease than the cure for sustainable development. Any corporation, like any other stakeholder, that wants to develop sustainably over time can only maximize profits through meeting the needs of all stakeholders: that is, customers, employees, suppliers, regulators, and society as whole. The rules of the game should be defined by the universal owner concept, which nicely encapsulates that idea.

In the same spirit, investors and their agents historically focused on the fulfilment of a legal contract or mandate whose specific mission was to maximise financial returns, regardless of any other consideration. Any party diluting this obligation, even for material sustainability reasons, could be considered in breach of their core fiduciary duties.

However, the global financial crisis and its devastating ramifications for the global economy evoked public outcry and indignation about failing corporate responsibility. It also shifted investors' perception of risk and return, especially concerning sustainability. Worldwide, present and projected environmental damage, continuing governance failures as well as weak prudential oversight and lack of regulation by governments have highlighted the real financial risk of not integrating material non-financial factors in traditional investment analysis and asset pricing.

We should all take a more holistic view on the pricing of externalities in order to contribute to sustainable development. In a highly connected world, the impact of negative outcomes has immediate reputational and regulatory consequences. Corporations, investors and public policy should consider associated constraints and externalities when they are operating in or engaging with society or other stakeholders.

Sustainability dynamics do have a direct impact on the long-term success of businesses and societies. Hence investors, managers and trustees can and must consider the effect of climate change, fossil fuel use, water and air pollution, supply chain management, violations of human and labour rights and corruption when they commit their capital.

In a broad re-evaluation of the financial risks posed by global warming, the governor of the Bank of England, Mark Carney, now contends that ignoring “non-financial” factors which may impact investment returns is a negligence of fiduciary duty.

> “*The challenges currently posed by climate change pale in significance compared with what might come. Once climate change becomes a defining issue for financial stability, it may already be too late.*”

This view also attracts strong public support, a key point of accountability for pension schemes, and is an important consideration for Generation Y, the global high net worth wealth-inheritors sensitive to the social perception of how their money is deployed. In a 2015 survey of investors, Morgan Stanley found that millennials (84%) and women (76%) are on the leading edge of factoring sustainability in investment strategies.

Furthermore, Candriam believes incorporating Environmental, Social and Governance (ESG) factors into investment processes does not necessarily require compromising financial return. Traditionally, sovereign credit analysis incorporates economic and financial factors, but does not typically assess a country’s long-term sustainable development potential, especially in emerging markets where reliable information is harder to obtain and verify. A Sustainable and Responsible Investment (SRI) strategy that systematically integrates environmental, social and governance criteria leads to better insights and makes for better informed investment decisions from a risk-return perspective.

Globally, investors provide finance to governments to fund their policies and the cost of capital reflects the lender’s view of the borrower’s intended actions. Asset owners have a legitimate interest in how their capital is used: such concern is the essence of responsible investment.

Systematic integration of sustainability into sovereign analysis is not a trivial task, due to its multifaceted nature. Candriam’s ESG country analysis evaluates countries based on a rigorous analytical tool that incorporates the inter-connected ESG factors on which economies are based, and how these affect sustainable development and growth. Our resulting analysis is not a moral judgement, but a holistic risk assessment of countries which enables investors to decide how best to commit their funds, according to their own principles and requirements.

Given the global scope and impact of our report, Candriam is acutely aware that our own analytical process must be thorough and transparent, and it is in this spirit that we publish our full methodology, and welcome any feedback which may enhance it.

METHODOLOGY

The Sustainable Development Goals have clearly articulated the need to shift the emphasis from measuring economic development to appraising and incentivising sustainable development. Undeniably, both are fundamentally intertwined. That raises the question of what sustainability implies for global societal development and, more importantly, how it should drive capital flows.

Allow us to borrow a little wisdom. The 1987 Brundtland Report of the United Nations Commission on Environment and Development offers the most comprehensive definition on sustainable development:

> *It is development that meets the needs of the present without comprising the ability of future generations to meet their own needs.*

This very brief and, at the same time, very powerful definition nicely summarizes the ambition that sustainable development is not only about economic prosperity for our own sake or maintaining the well-being of our generation. It is also a forward-looking concept. We need to preserve the world's available resources and are not entitled to pursue our own needs at the expense of those of future generations.

The Brundtland Report argues that sustainable development is essentially about "distributional justice", both in terms of time and space. Hence, measuring and assessing sustainable development of countries entails looking beyond economic development and assess the many elements that guarantee a prosperous future for all. In addition, sustainable development and its driving ingredients directly impact the creditworthiness, competitiveness and growth potential of countries in the long run. This report attempts to explain how Candriam's country analysis incorporates the multifaceted nature of sustainable development in order to better inform Candriam's sovereign credit analysis.

To this end, we need to integrate into our analysis how countries are depleting natural resources, addressing climate change, pursuing inclusive growth through investment in a healthy and educated labour force, building respectful and well-functioning social institutions and networks that guarantee a fair society, creating a competitive economic environment in which all stakeholders can thrive, and finally, in an increasingly globalized and connected world, respecting the well-being of people living in other countries.

When measuring and fostering societal progress, financial markets and international institutions like the International Monetary Fund or the World Bank have most often adopted as a conceptual basis the traditional financial capital development approach.

The central theme of our approach is that sustainable development can only be appropriately assessed if the concept of development is broadened beyond its conventional scope in economics, which most often links development to physical or material items such as equipment, energy, mineral resources etc.

Going beyond GDP (Gross Domestic Product) requires linking human inter-generational well-being to all kinds of capital. Candriam's ESG country analysis considers that a society or country's total capital comprises four types of stock or resources; **Human Capital, Natural Capital and Social Capital, alongside Economic Capital.** They all serve the needs of the current generation but should also be preserved for future generations.

Furthermore, Candriam ESG country analysis asserts that sustainability has impact. Policy and public good matters because people and corporations do not operate in a vacuum. Candriam believes that a sustainable ecosystem crafted by public policy benefits both investors and local communities. In the long run, economic value will mostly flow to countries that manage their human, natural, social and economic resources in a sustainable manner.

The UN Principles for Responsible Investment stated that the private sector and investors in particular, are indispensable in achieving the UN SDGs signed by over 190 countries. True, the sustainable development goals are very broad and aim high. The goals establish an aspirational reference framework, a new language that covers many different sustainability themes – poverty, equality, climate change, clean water and sanitation, health and wellness, food security, waste management, … At Candriam, we are convinced that they create long term investment opportunities and should become a benchmark for sustainable investing around the world. In its report on sustainable development, UBS rightfully states:

> “*We believe that investors willing to commit to such themes over multiple business cycles can benefit from potential mispricing created by the typically shorter-term focus of financial markets.*”

Putting the SDG framework into practice is not easy but in every challenge lies an opportunity. Candriam’s ESG country analysis approach attempts to contribute to the realization of the 17 United Nations Sustainable Development Goals and related targets by offering the market a rigorous and structured measurement framework for assessing and monitoring both developing and emerging countries as regards the environmental, social and governance challenges and opportunities to which they are exposed.

CANDRIAM'S BEST IN UNIVERSE ESG COUNTRY ANALYSIS

Through a long-established **Best in Universe ESG process** and a uniquely detailed annual ESG Country analysis, Candriam offers investors a holistic evaluation of each country's long term sustainable development potential, and the non-financial risks and opportunities that impact long term value creation. Admittedly, defining those is always a challenge. Not only because investors' perspectives differ. Countries can be very diverse, not only geographically, but also in terms of development, culture, population.

Moreover, sustainable development factors impact countries in many ways, depending on the nature of the ESG risks being assessed. Some sustainability factors may be very long term in nature and in line with the investor's investment horizon, others less. Environmental, social or governance issues most often exposes countries to different unpredictable and discontinuous risks with either direct or indirect impact. For example, climate change-induced weather events like floods and hurricanes are sudden and sharp with an immediate and catastrophic impact on economic growth and local communities. The 2017 summer storms in the US are a powerful example. On the other hand, thoughtless management of resources like water may indirectly impact economic growth, inflation, monetary policy because businesses and local communities compete for the same scarce resource in times of stress.

To account for the multifaceted dimension of sustainable development, Candriam's ESG Country analysis is based around a dynamic capital-based analytical tree, which covers the sustainable development challenges and opportunities faced by each nation. The Best in Universe ESG approach scores countries in terms of how sustainably they manage their Human, Natural, Social and Economic Capital.

Although the centre of economic gravity may be gradually shifting, most emerging markets have less economic power and resources to develop their full potential. Developing countries are also more vulnerable and have less socio-economic resilience to exogenous ESG shocks. Hence it would be unfair to apply the same standards to emerging markets when scoring countries. Still, we want to apply the same analysis to all countries considered to have a consistent and uniform assessment and ranking framework. That is why we have lowered the bar for inclusion when it concerns emerging markets. Emerging countries with an ESG score of 35 out of 100 or higher, and Developed countries with an ESG score of 50 or higher are included in our investment universe. In addition, those countries that fail to pass our exclusion screening are not eligible for investment.

The exclusion screening eliminates the most repressive regimes (deemed 'Highly-Oppressive-Regimes') and the countries that are at risk with regards to the financing of terrorism or to money laundering.

EXCLUSION APPLIED IN THE BEST IN UNIVERSE APPROACH

FATF

There is a hard exclusion (or automatic exclusion) on countries that appear on the "call for action list" issued by the Financial Action Task Force, or that appear on the list of Highly-Oppressive Regimes compiled by Candriam's own SRI department. Countries on the FATF list are deemed the most non-cooperative and therefore "high-risk" jurisdictions in the world with regard to combating money laundering, terrorism financing and other threats to the integrity of the international financial system.

Highly Oppressive Regimes

The countries on Candriam's list are deemed the most repressive governments in the World. The definition is even stricter than the one used in the Democracy & Corruption screening. The list is compiled after a separate analysis, which is updated each year. It is used predominantly for the ESG analysis of companies (more precisely to review the risk associated with a company's presence in Highly Oppressive Regimes). In other words, if it is a problem for a company to operate in such a country, it is even more of a problem to invest in the debt issued by that government. Therefore, there is a hard exclusion on the debt issued by these regimes.

The successful integration of sustainability factors into sovereign analysis as well as the incorporation of the SDGs into investment decisions require reliable and coherent data to be disclosed by countries. Available information about country level governance of sustainability related issues is unfortunately not standardized and is very often qualitative in nature. Still, the sources that feed into Candriam ESG country analysis provide measurable and coherent indicators to assess and score countries. Inputs for the indicators are provided by independent sources, including: ESG data specialists Vigéo-EIRIS, the World Bank, the International Energy Agency (IEA), the OECD, the International Labor Organization (ILO), the World Health Organization (WHO), the Food and Agriculture Organization of the United Nations, the IMF, and the non-government organisations Reporters Without Borders and Transparency International.

We place this information into a structured framework yielding a clear overall picture of each country's performance. The approach offers a more complete understanding of the complex realities that drive a countries sustainable development and growth in the long run.

Candriam's ESG Country Analysis is based on four 'capital 'domains which go beyond the conventional financial capital development philosophy and cover all the widely-followed United Nations Sustainable Development Goals (SDGs): Human Capital, Natural Capital, Social Capital and Economic Capital. These four domains incorporate a wide-range of material ESG issues that are evaluated using a set of key performance indicators or KPIs. The resulting 'analytical tree' enables country comparison due to a data-rich process that can be cross checked and transparently verified.

UN SUSTAINABLE DEVELOPMENT GOALS AT THE CORE OF CANDRIAM'S COUNTRIES APPROACH

Source: Candriam

The ESG country score is calculated using a weighted average model. The four key domain factors (below) are considered to have equal importance and are therefore equally weighted. Within each capital domain, the ESG issues and KPIs are weighted based on relevance. The ESG Country analysis model is also fine-tuned to take into account the evolution of a country's sustainability performance. For each indicator, a country's score is the weighted average of a 'trend score' and a 'present score'. Besides, we believe it is not sufficient to simply consider a given policy, but it is also essential to look at the impact of public policies over time.

The **Human Capital** indicators aim to identify countries with the highest economic and creative productivity, through assessing the education and skill level, the degree of health, the participation rate and employment ratio of each country's population. As an example, our Human Capital assessment addresses the sustainable development goals: Goal 2: No Hunger, Goal 3: Good Health, Goal 4: Quality Education, Goal 8: Good Jobs and Economic Growth and Goal 9: Innovation and Infrastructure.

Sustainable socio-economic development hinges on the sustainable management of a country's natural ecosystem. **Natural Capital** assesses how a country is conserving and sustainably employing its natural resources, managing its interaction with global environmental issues and challenges such as Climate change, its consumption of natural resources including fossil fuels, its biodiversity stewardship and its handling of waste materials. This analysis aligns with, among others, the SDGs: Goal 6: Clean Water, Goal 12: Responsible Consumption and Goal 13: Climate action.

The **Social Capital** indicators evaluate the civil society and state institutions of each nation, including levels of transparency and democracy, or corruption and repression, among other factors. They consider whether the rule of law is upheld, assess the disparity between richest and poorest in the society, and gauge citizens' access to reliable information. Given its importance for sustainable development, the Social Capital assessment integrates a specific screening on democracy and corruption as identified by Freedom House's Freedom in the World index, The World Bank Voice & Accountability Index and The World Bank Control of Corruption index. These indices reflect concern about issues such as oppression, human rights, political freedom, or efforts to mitigate corruption. Countries with poor records in these respects are assigned low scores on the relevant measures. Social Capital indicators address, among others, the SDG goals 5 and 10 covering equality.

PENALTIES APPLIED IN THE BEST IN UNIVERSE APPROACH

Democracy and Corruption

When a country fails the Democracy & Corruption screening, its Social Capital is set at zero, which lowers its overall score and makes it difficult, but not impossible, for the country to make it into the investable universe. For instance, an emerging country with high scores for Human Capital, Natural Capital and Economic Capital, but which fails the Democracy & Corruption screening (and therefore scores zero on Social Capital), could still get a final score above or equal to 35 and therefore be investable. In practice, this is hard to achieve. The majority of countries that fail the Democracy & Corruption screening score lower than 35 and are therefore excluded from the investable universe.

For a developed country, which must score 50 or higher to be investable, it is even harder to fail the Democracy & Corruption screening. If it fails (and consequently scores zero for Social Capital) it is unlikely to achieve the required score. While there is no automatic exclusion of countries which fail the Democracy & Corruption screening, the penalty effectively takes most of these countries out of the investable universe.

Our analysis of **Economic Capital** completes all those factors with an assessment of the country's economic fundamentals (GDP, budget deficit, debt service payments etc.), thus measuring countries' ability to finance and support their sustainability policies in the long run. Hence, the Economic Capital score reflects the degree of economic sustainability of a country's development model. Economic Capital covers Goal 8, Good Jobs and Economic Growth, as well as Goal 9: Innovation and Infrastructure.

While the ESG country analysis is conducted once a year, Candriam is constantly monitoring all ESG developments that are affecting countries. We have put in place an Alert system, which is used when an event materially affects the ESG profile of a country. An alert is circulated internally to inform portfolio managers, and the ESG score and profile of the affected country is updated.

COUNTRY ANALYSIS FRAMEWORK

HUMAN CAPITAL	NATURAL CAPITAL	SOCIAL CAPITAL	ECONOMIC CAPITAL
Labour	Total environmental impact	Democracy	Indebtedness
Health	Transportation policy	Corruption & rule of law	Economic activity
Knowledge	Atmospheric pollution	Governance	Budget deficit
	Energy & climate change	Fairness	Health of the financial system
	Ecosystems & biodiversity	Peace	International competitiveness
	Water resources		Economic diversification
	Raw materials & wastes		Foreign dependency
	Natural hazards & disasters		

Source: Candriam

REPORT RESULTS

OVERVIEW

The 2017 Candriam ESG Country report analysed and scored 123 countries. Out of these, 35 countries were Advanced Economies and 88 were Emerging economies (following the definition by the International Monetary Fund).

Following our ESG analysis, 74 countries were categorised as investible and 49 were categorised as non investible. Of the 74 investible countries, 34 were Advanced Economies and 40 were Emerging economies.

Advanced Economies require a score above or equal to 50 on 100 for them to be investable. Emerging Economies must be above or equal to 35. Of the 35 Advanced Economies analysed, only Greece, with its ongoing debt restructuring programme, is presently considered non-investable. Out of the Emerging Economies, which benefit from a lower inclusion threshold while their financial infrastructure matures, 40 were classified as investable and 48 non-investable.

This year Turkey has been subject to an alert following the deterioration of its political system, and its evolution towards an authoritarian regime. It has been categorised as non investible for 2017.

CANDRIAM COUNTRY REPORT

123 Countries analysed
35 Advanced Economies
88 Emerging Economies
74 Investable economies

THE TOP FIVE

Of the 74 Investible countries assessed, Sweden again took top place, followed by Norway, Switzerland, Iceland and Luxembourg.

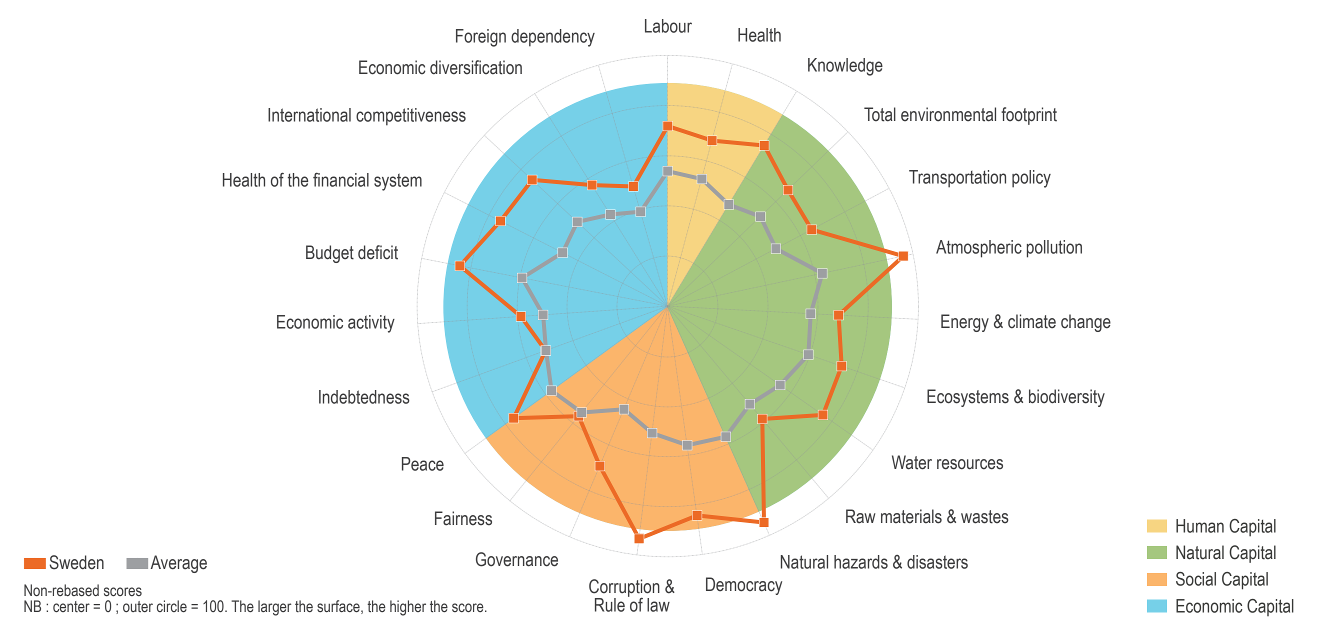
1. Sweden
2. Norway
3. Switzerland
4. Iceland
5. Luxembourg

All have featured among the top places of the Country rankings previously. Northern Europe leads even the developed markets, with generally very high scores in all four capital domains, as explained in our Introduction and Methodology. The best countries are very good or excellent almost everywhere, and still above average in the capital domain where they score lowest.

Often they score better on Human/Natural/Social Capital, and slightly lower although still above average on Economic Capital. This shows that the most sustainable countries tend to be those with a significant welfare state, where the government and public policies in general are substantial and impactful. However, this may translate into higher fiscal pressures and a slightly less business-friendly environment, impacting slightly negatively on their Economic Capital scores.

In this year's report, Sweden not only took top place but improved on its previous year's score, as did the four other top-ranked countries. The scores indicate support for and protection to the fullest degree possible of Social, Human and Natural Capital, as defined by the 17 United Nations Sustainable Development Goals (SDGs).

SUSTAINABILITY ASSESSMENT OF SWEDEN



Sources : World Bank, IMF, ILO, FAO, IEA

While any developed nation would expect to have robust scores regarding poverty alleviation, education and healthcare, Sweden's score suggests it can demonstrate progress on meeting SDGs such as effective water resource management, including its marine assets, the promotion of renewable and sustainable energy policy and consumption, and efforts to grow resilience to combat climate change and its effects. Sweden is deemed a global leader in tackling social inequality, promoting gender equality and the empowerment of women, and the promotion of peaceful and inclusive society. We expect Sweden to remain a sustainability leader in the near future, notably with respect to climate change mitigation, as its parliament recently wrote into law the goal to make Sweden carbon neutral by 2045. The current effort to promote adult education and vocational training, and the ambitious objective to achieve the lowest unemployment rate in the EU by 2020, also augur well for the future.

Likewise, Norway scores highly in all four Capital domains. Norway's score is only slightly dented by its significant economic reliance on its large oil industry. But this is partly offset by the strong commitment to ESG (Environmental, Social and Governance) investment by the state's powerful sovereign wealth fund. Moreover, Norway is actively mitigating its dependency on the oil and gas sector through supporting and nurturing several promising start-ups in the area of clean energy (offshore wind power, solar, hydrogen, small hydropower sources etc.), as well as making its tax-system more business friendly. Thus, we expect a slight increase of Norway's sustainability performance.

Third-placed Switzerland performs strongly in all domains, only dipping slightly on financial transparency and accountability. This issue is being addressed as Switzerland is gradually relinquishing bank secrecy. Also, the recent passing of the Energy Strategy 2050 law and the subsequent effort to boost renewable power generation and energy efficiency and to phase-out Nuclear power plants, will benefit Switzerland's sustainability score in the short and mid-term.

THE BOTTOM FIVE

119. Sudan
120. Zimbabwe
121. Libya
122. Iran
123. Turkmenistan

Two countries – Iran (122nd) and Turkmenistan (123rd), failed the Country Report Exclusion Screening in 2017, therefore scoring zero. Iran is deemed a 'high risk and non-cooperative jurisdiction', according to the FAFT (Financial Action Task Force). Given Iran's President recent threat to quit the 2015 agreement on Nuclear enrichment, and the subsequent deterioration of diplomatic relations with the US and other Western countries, we do not anticipate Iran becoming a more collaborative jurisdiction regarding money laundering, terrorist financing and the integrity of the international financial system, in the short run.

Turkmenistan is classified as a 'highly oppressive regime'. Its political regime remains one of the most repressive worldwide and there has been virtually no improvement in the Democracy and Human Rights situation over the last five years. Consequently, we believe it is likely that Turkmenistan will still be categorised as a highly oppressive regime in 2018.

The countries which passed the Exclusion screening but scored lowest were Libya (bottom), Zimbabwe, Sudan, Iraq and Pakistan. All are categorised as Emerging markets and produced very low scores for Human, Social and Natural Capital, as well as Economic Capital. Typically, the lowest ranking countries score poorly on all Capital domains. They are often developing nations in a state of war or civil unrest, run by dictatorships and/or heavily corrupt regimes, resulting in Social Capital scores of zero, and low Human and Natural Capital scores.

For example, Ukraine is ranked 113th overall. It's Human Capital score is actually slightly above average but conflict has taken its toll on other Capital domains. The methodology recognises that war and instability tends to divert human and financial resources towards war effort, thereby hindering the ability of administrations to deliver the policies to formulate or support sustainable economic development.

However, these classifications can and do change for the better, sometimes quickly, and it is important that the Country Report methodology is responsive and flexible enough to reflect these important shifts. Hence, Ukraine's gradual economic recovery, its economic rebalancing towards the agricultural sector and away from heavy industry, the improvement of its relationship with the EU and the US, and the recent adoption of a visa-free regime with the EU, are likely to stimulate foreign direct investment, and should result in an improving Economic Capital score over the next three years. If Ukraine implements extensive reforms of its agricultural sector and of its judiciary, we would expect a swift rise of its Economic Capital score.

DEALING WITH WAR, CONFLICTS AND POLITICAL INSTABILITY

The holistic methodology Candriam deploys must be able to deal with factors like war and political instability, which leave governments unable to deliver the policies to formulate or support sustainable economic development. When a country is involved in a war, it has both direct and indirect negative impacts on its sustainability score.

The first **direct impact** will be a decrease in the score on the peace subdomain within the Social Capital domain. Military conflict is considered a negative occurrence from a sustainability point of view, as it destabilises countries, destroys and damages human lives and infrastructure, and rarely solves the problems that triggered the conflict. However, we do not, for example, treat military interventions under United Nations mandates in the same way as military conflicts. We take into account the role of each country i.e. aggressors are penalized while countries defending themselves would not be.

Military conflict undermines a country's ESG score in **indirect ways** as well. It invariably leads to large expenditures which usually translate into reduced public spending on health, education, innovation and environmental policies. Additional taxes may be raised to finance the military effort, leading to fiscal pressures or diminished economic competitiveness of the private sector. Public policies may have to be changed or introduced to deal with aid and healthcare needs, while the country might suffer from a loss of skills, productivity and damaged infrastructure. Countries involved in military conflict also tend to delay the implementation of other policies, resulting in lags on other metrics such as telecom or energy capabilities.

Political instability typically has a lower impact in comparison to War and military conflict. It consumes fewer financial and human resources, and tends to generate fewer needs to social, environmental and economic policies. Yet, political instability will directly degrade the following subdomain scores: Democracy (Social Capital domain), if the political system and /or freedom of the media is jeopardised; Governance (Social Capital domain) and International Competitiveness (Economic Capital) due to a degraded business environment and a lower attractiveness to foreign investors.

The indirect effects of political instability are discernible through a tightening of the flow of Foreign Direct Investment, which can ultimately destabilize the banking system (Health of the financial system subdomain>Economic Capital); depress economic activity (Economic activity subdomain); and worsen the Labour market (Labour subdomain<Human Capital).

OTHER RESULTS AND TRENDS FROM THE 2017 COUNTRY REPORT

The best are consistent winners

Developed Economies lead the whole group of Investible Developed and Emerging country scores. Among the leading five countries, Sweden and Norway both perform very well on Human, Natural and Social Capital, and slightly less well on Economic Capital. Typically, Sweden has a high tax rate and had to gradually adapt its welfare state to make them more competitive internationally.

Norway enjoys a very good overall sustainability score but this and other gains are indirectly financed by its huge oil & gas exports. So even though the country makes sustainable and responsible use of its oil & gas-derived revenues, that wealth is essentially derived from polluting commodities. Yet, Norway is heightening its efforts to reduce its dependency to the oil & gas sector. Norway is certainly the oil producing country that prepares the best for its future “beyond oil”.

Switzerland is renowned as a very well organised society, with long established institutions which are both highly effective and very democratic, resulting in a strong Social Capital score. The country has a model transportation policy and takes very good care of its Natural Capital overall. However, it loses a few points in our methodology because of a certain degree of lack of co-operation internationally on fiscal transparency. As noted above, the country is moving to collaborate with foreign tax authorities on tax evasion matters. Provided it effectively implements automatic exchange of fiscal information from October 2018, it could improve its sustainability score even further.

In the Developed Economies category, the only country to score below average is Greece, which remains plagued by depressed economic fundamentals, even though it is gradually starting to show signs of improvement. It also lags other Developed economies with regards to the preservation of its Natural Capital. Its Human Capital is average, and its Social Capital is actually above average. We expect a stagnation of Greece’s Sustainability score in the short-term, as the economic situation is not yet fully stabilised (with weak economic growth and high ratios of non-performing loans). We do not foresee any tangible improvement of Greece Sustainability score until a substantial economic recovery occurs, as the lack of government funding is preventing investments in any ambitious sustainable development policy.

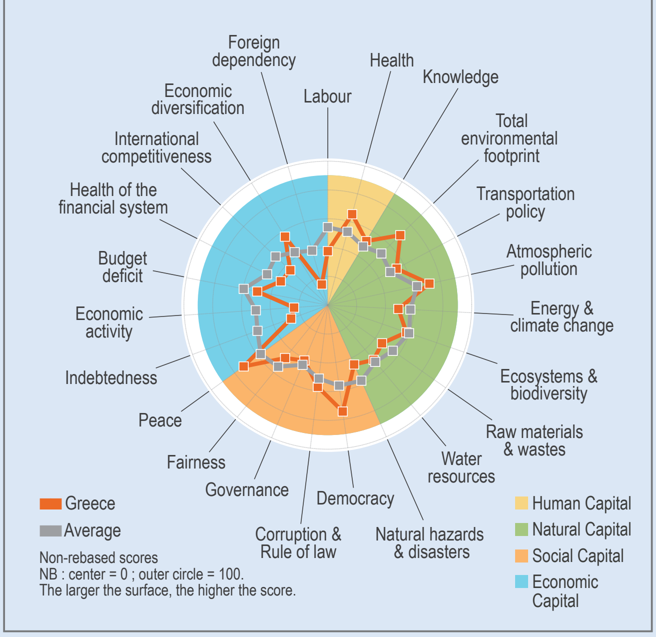
Similar to Greece, Cyprus is also handicapped by weak economic fundamentals. Its other metrics are clearly better though, notably with regards to Social Capital. This translates into a final score which remains quite high, but still below other advanced Economies. On the mid-term, the completion of several renewable energy projects (solar-photovoltaic, wind-power, solar-thermal), and the progressive switch of power-generations capacities from oil to natural gas, will help improve Cyprus’ Natural Capital score.

CAPTURING COMPLEXITY: HOW GREECE SCORED

Greece scores below average overall among Developed countries but the methodology captures the complex picture behind the final ranking. Greece's Social Capital score is slightly above average, mainly due to its strong score in the political domain. Its political system is clearly more **democratic** than average, providing voters with a comparatively high level of control over their government. Greece is not far from the best countries when it comes to how democratic its political system is. A second strength is Greece's **peace** subdomain score, since the country is very seldom involved in military conflict or interventions. Greece also records a low crime rate, and its population enjoys a high level of security in comparison to most other countries.

However, Greece scores averagely when it comes to corruption and the enforcement of the **rule of law**. It lags many other developed countries, but still scores better than most emerging countries. It scores slightly below average on the **Governance** subdomain, as its institutions are considered less effective than average and its commercial environment could be made more business friendly. It also scores slightly below average on the **Fairness** subdomain, as years of economic difficulties have led to a worsening poverty. Yet good gender equality metrics help keep the Fairness score close to average.

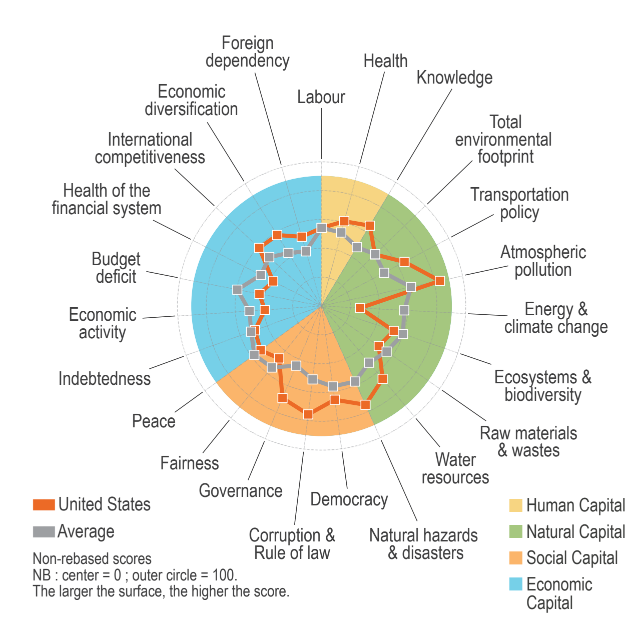
SUSTAINABILITY ASSESSMENT OF GREECE



Sources : World Bank, IMF, ILO, FAO, IEA

While rankings are accurate and useful, the background story is sometimes more complex. Although the USA lies in the lower half of the countries in the 'Developed' category, it cannot be considered a 'poor' performer. It scores well with regards to the Social Capital and Human Capital domains, but slightly below average with regards to the Natural Capital domain and around average concerning the Economic Capital domain. The scores demonstrate the challenge of balancing GDP growth, for a long time considered to be the key factor in social wellbeing and the development of Human Capital, with careful stewardship of Natural Capital, where finite resources may be damaged or depleted in order to fuel traditional economic growth targets.

SUSTAINABILITY ASSESSMENT OF UNITED STATES



Sources : World Bank, IMF, ILO, FAO, IEA

The USA's Economic score has been adjusted upwards to reflect its status as the currency of reference for most international transactions. This effectively protects the country from the risk of a currency crisis and suggests that its significant current account deficit is not really a problem. But its Social Capital score could be affected by presidential changes to key personnel in domestic institutions, or by Washington's ambivalence or withdrawal from critical international agreements like the Paris Climate Change deal, which is a clear negative signal sent to SRI investors. In 2015, the USA's had played a key role in making the Paris agreement possible, notably through diplomatic efforts towards China. President Trump's June 2017 decision to withdraw from the climate deal deprives future climate negotiations from a decisive leadership, and removes the World second largest emitter of greenhouse gases from the scope of the negotiations. This decision is likely to harm the climate change mitigation effort on a global level.

THE USA SCORES WELL ON SOCIAL AND HUMAN CAPITAL, BUT SLIGHTLY BELOW AVERAGE ON NATURAL CAPITAL AND AVERAGE CONCERNING ECONOMIC CAPITAL.

Within the Human Capital domain, the USA's main strength is its Knowledge score which benefits from good innovation statistics (R&D expenditures, patenting activity) and from its network of World famous universities. It is just average on Health: the system is effective and well developed, but inefficient and costly. Also, environmental health statistics on obesity, diabetes, heart diseases are poor. The USA scores averagely on Labour, since essential labour rights are not as well enforced as in other developed countries, and it has not signed or ratified key international labour conventions.

On Natural Capital domain, the main weakness is on the Energy and climate change subdomain. The country lags in the implementation of clean energy, and remains an energy intensive economy. Its recent withdrawal from the Paris agreement on Climate Change is a negative sign to all SRI investors. On the positive side, statistics on atmospheric pollution, the management of water resources and damages to biodiversity are all average or better than average.

The USA scores above average on the Social Capital domain thanks to good scores on the Democracy subdomain, a very good score on Corruption & Rule of Law, and a good score on Governance. The country is slightly below average on the Fairness subdomain (with large economic inequalities) and on the Peace subdomain (involvement in military conflicts, a crime rate above average and a large prison population).

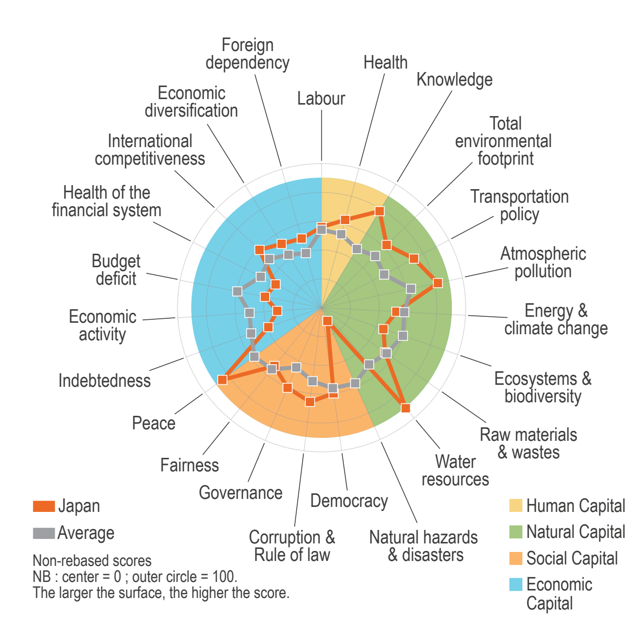
Donald Trump's presidency is not expected to deliver any significant improvement in the area of sustainable development. Yet, the division of the Republican party prevented the new government from reversing the Obamacare policies, and it seems unlikely that it will successfully pass any far-reaching tax reform. Thus, the most likely scenario is that the Trump administration fails to significantly alter the policies currently in place in the USA, and that the status quo prevails. Meanwhile, the economic recovery should translate into improved economic fundamentals, as well as a lower unemployment rate. This should support the USA's sustainability score in the short to mid-term.

Regional leaders and laggards

As previously noted, Scandinavian countries have frequently claimed the top rankings in the Country report. Apart from Sweden, Norway and Iceland, Finland and Denmark are always close to the best. Germany and Austria usually score just behind, pipped this year by Luxembourg.

Outside of Europe, New Zealand, Japan, Canada and to a lesser extent Australia, have all scored highly this year. These four countries consistently achieve high scores for Human Capital and Social Capital. However, a key difference is that New Zealand and Japan also achieve a high score for Natural Capital, while Canada and Australia lag in this respect.

SUSTAINABILITY ASSESSMENT OF JAPAN



Sources : World Bank, IMF, ILO, FAO, IEA

Among Asian countries, only Japan and South Korea perform strongly overall. The Philippines scores average, and the current deterioration of the security situation (with ongoing military conflict in the South) and of the rule of law, are negative signs for the future. Many Asian countries' scores are also penalized by a lack of democracy which impacts the Social Capital domain.

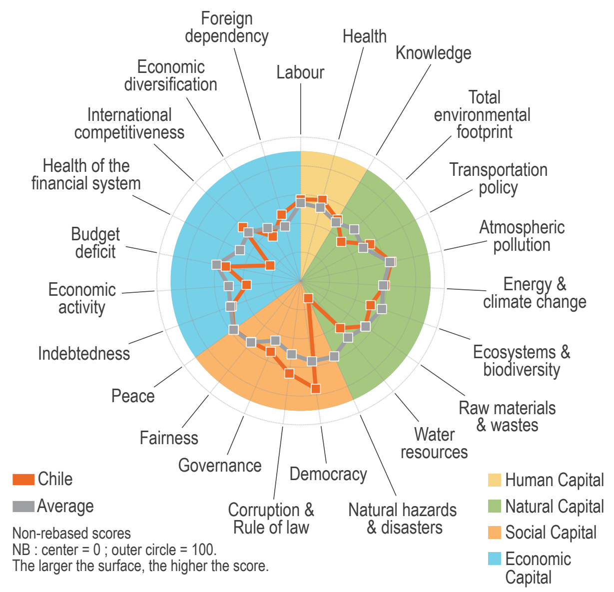
Among Middle Eastern and North African countries, Israel, Morocco and Tunisia are the highest scoring countries. This is the region where average scores are the lowest, due mainly to military conflict and repressive governments. In the mid-term, Tunisia and Egypt should benefit from the improving security situation in North Africa, which should help restore their tourism industries, stimulate economic activity and ultimately, improve the social situation in these countries. In Africa, Ghana, Senegal, the Ivory Coast and Namibia achieve the highest scores. In these four countries, policy effort to favour entrepreneurship, improve business climates, and promote industrialisation are likely to support economic growth and help mitigate poverty further. We foresee an increase in the Sustainability score of the Ivory Coast, as recent political reforms are expected to improve public governance, healthcare, education and social protection.

For Central and South America, Costa Rica, Chile, Uruguay are the best scorers, and fly the flag for the region. Costa Rica and Chile are among the best performing countries within the Emerging category.

Costa Rica is known for its progressive policies to preserve the environment and for its efforts to promote biodiversity, hence it returned a good Natural Capital score. It also scored well on Human Capital and Social Capital, where it performs significantly better than other countries in Central and South America. However, its Economic fundamentals are slightly below average. In the short term, Costa Rica's Natural Capital is likely to rise slightly higher, as the country keeps investing in wind-power and hydropower generation capacities, further reducing its dependency on fossil fuels. Tackling inequalities in access to education and implementing reforms to better share the tax burden within the population, would drive Costa Rica's sustainability score even higher.

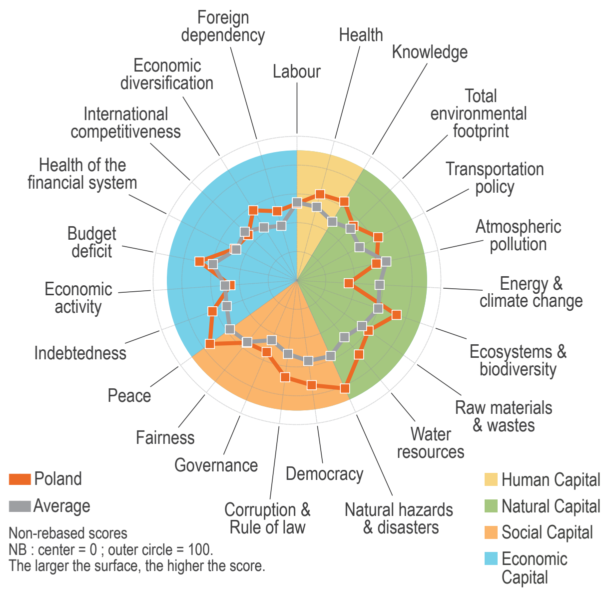
Chile's strengths are its Social Capital (democratic institutions, effectiveness of the administration) and its Human Capital (a comparatively good healthcare system), while it scores average with regards to Economic Capital, and below average on the Natural Capital domain. Chile will probably change government following this November's presidential and legislative elections. Policy changes with regard to improving education and healthcare, promoting entrepreneurship and developing hydropower, should yield Chile a slight improvement in its sustainability score in the mid-term.

SUSTAINABILITY ASSESSMENT OF CHILE



Sources : World Bank, IMF, ILO, FAO, IEA

SUSTAINABILITY ASSESSMENT OF POLAND



Sources : World Bank, IMF, ILO, FAO, IEA

Another notable example in this year's Emerging Category is Poland. The country scores high on Social Capital although this is being jeopardized by a series of government policy decisions, as indicated at the start of 2017. It also scores high on Human Capital, and slightly above average on Economic Capital. It only lags as regards Natural Capital, mostly because of its dependence on coal for power generation, and its reluctance to tackle climate change. In the short term, we foresee a deterioration of Poland Social Capital score, following the attempts of the governing right-wing Law and Justice party (PiS) to gain influence over the Constitutional Court and over state-controlled media. This should be partially offset by an improving Human Capital score thanks to a continuously decreasing unemployment rate and the improvement of the quality of jobs (better paid and less precarious). Therefore, all in all, we foresee a slight decrease in the Sustainability score of Poland in the near future.

Among Emerging Economies, the worst performing countries are the same as the worst performing countries overall: Turkmenistan, Iran, Libya, Sudan, Zimbabwe, Iraq, Pakistan. As explained above, most of these countries are plagued by war, internal conflicts and civil disorder, that drain financial resources away from sustainability policies, while creating an ever-growing need for precisely the policies they lack.

Continuous Improvement

Each year the Methodology for the Candriam Country Report is refined as more countries are added. The rankings of both Advanced and Emerging countries inevitably change. This evolution over time of a country's profile and progress may be even more useful and interesting to investors than a flat annual score. Although countries like Sweden, Norway and Switzerland remain reliably with the Top 10 overall, other countries have made their way up the rankings in recent years.

Since 2013, the Improvers among Advanced economies have been Iceland, Lithuania, Latvia, Spain, the Czech Republic, and to some extent, Ireland. Among Emerging economies, improving scores have been delivered by Ivory Coast, Serbia, Sri Lanka and Thailand. These are huge achievements for developing nations constrained by appropriate skills shortages, financial resources and social and physical infrastructure. Emerging economies are sometimes more vulnerable to instability, but a turnaround is often the result of the end of military hostilities and subsequent political stabilisation, which enables immediate improvement in all four Capital domains.

The report only started to include Emerging economies from 2016, but the scores for Russia, Turkey, Georgia, Bosnia-Herzegovina, and Nigeria are all down this year compared to last year.

EMERGING MARKETS: FOCUS ON THE FOUR LARGEST EMERGING ECONOMIES

Investors have always been interested in the higher returns available in some Emerging markets, even given perceived higher risks. The scores assess and integrate the challenges that large, complex emerging markets face to manage and balance for the long term either rapid GDP growth or slowdowns, and overall sustainability. We look at Brazil, Russia, India and China.

BRAZIL

In this year's Report, Brazil scores 54.08 and is therefore eligible (for emerging countries, the score must be superior or equal to 35). Brazil is ranked 50th out of 123 countries, meaning it scores above the average of countries analysed. Within the subgroup of Emerging economies, Brazil came 16th out of 88, putting it in the top quarter from an ESG perspective.

However, Brazil's score has decreased by 2.66 points since last year, while the average evolution of scores for all the 123 countries is slightly positive. Brazil's score therefore decreased more than average and the country dropped one place in the rankings. If it had maintained its score from last year, it would have improved to 47th place. This also shows there are many country scores concentrated around Brazil's score.

The analysis shows Brazil's scores dropped in all four capital domains, but especially Human Capital, due to lower scores in the health and knowledge subdomains. There has been a gradual tightening of the public healthcare budget, making it increasingly inaccessible and difficult for the already underfunded healthcare system to serve the whole population.

The decrease in the knowledge subdomain score is down to the tighter education budget in proportion to overall government expenditure, including budget cuts in higher education. Brazil's education system remains socioeconomically unequal, with serious difficulties at secondary school level, where the average level achieved by students is rather low.

In the short term, we foresee a degradation of Brazil Social Capital score, in the wake of the Petrobras scandal that unveiled large scale corruption within both the government and the two chambers of the parliament, and which is now challenging Brazil's current President. Also, the government's recent attempt to open a vast natural reserve in the Amazon to commercial mining, and the halving of the environment ministry budget will reflect negatively on its Natural Capital score. Overall, Brazil's sustainability score is expected to decrease over the coming year.

RUSSIA

Russia's scored 23.96 and as a result it is not eligible. Russia is ranked 94th out of 123 countries, meaning it scores below the average of the countries analysed. Within the subgroup of Emerging economies, Russia ranks 59th out of 88 countries, in the third quartile from an ESG perspective.

Russia's score remained almost unchanged from last year. As the average evolution of scores for the 123 countries is slightly positive, Russia's score fell back in relative terms and conceded seven ranks over the last year.

Russia's performance remained almost flat on the Human Capital and Social Capital domains, but decreased on the Natural Capital and Economic Capital domains. The Natural Capital score lagged because of Russia's slow development of renewable energy sources. Russia's electricity mix remains based on gas (50%), coal (15%), nuclear (17%) and hydro (17%), with very little production capacity in solar and wind, and few capacities in geothermal. In contrast, other countries are boosting renewable power production capacities. Large scale deforestation of ancient forest is also very negative: Russia is among the three lowest scores in this regard.

The decrease in Russia's Economic Capital score is caused by the economic recession in 2015-2016, prompted by the falling oil price. That led to a deteriorating budget deficit and export revenues, and a weak Financial stability score. Lower oil prices have also negatively affected banks' revenues while economic sanctions have restricted access to international financial markets. Several Russian banks appear weakly capitalized, which could become problematic as credit losses increase with economic slowdown.

The Russian government has declared 2017 to be the year of Ecology, taking measures to create several natural reserves, support biodiversity and implement a reforestation programme. This should result in a limited increase of Russia's Natural Capital score. In the absence of any significant reform, the social and governance situation should remain unchanged. On the Economic side, the health of the banking system will remain a matter of concern. Yet, a gradual improvement of the economic environment (due partly to higher oil prices) is expected to bring slightly better economic fundamentals. All in all, we expect a very limited improvement of Russia's sustainability score in the near future.

INDIA

India's score is 45.20 and is consequently eligible. India is ranked 72nd out of 123 countries, meaning it scores slightly below the average of the countries analysed. Within the subgroup of Emerging economies, India ranks 37th out of 88 countries, putting it in the top half of rankings from an ESG perspective.

India's score increased by 9.82 points since last year, while the average evolution of scores for the 123 countries is slightly positive. Therefore, India's score increased more than average. The country has improved by three ranks since last year. If it had maintained last year's score, its ranking would have remained almost unchanged.

India's performance decreased slightly on the Human Capital and Natural Capital domains, but improved more significantly on the Social Capital and Economic Capital scores. The Human Capital score decreased slightly due to lower government education spending. India already lags other countries in this respect. The education system is hindered by the low number and imprecise training of professors, which contributes to lower secondary school and university attendance.

India's Natural Capital score decreased slightly as most environmental metrics are stagnating, while atmospheric pollution in cities has worsened. The Social Capital score rose thanks to the slow but steady improvement in controlling corruption and financial transparency, and some measures to tackle gender equality and economic equality.

The country's Economic Capital score rose due to a slight decrease in India's debt in proportion to its GDP, following years of debt mitigation, strong GDP growth, and a slight reduction in the budget deficit to an expected 3% of GDP in 2017. Fiscal pressure remains comparatively low, so an unbalanced budget is not as much of a problem as in other countries.

In the short to mid-term, we anticipate a gradual improvement of India's Social Capital score, as reforms of the tax and subsidy system (via the introduction of the goods and services tax) should enhance the ease of doing business and help address corruption. With regards to the environment, the government's strong backing of renewable energy (a swift increase of solar power generation capacities and an ambitious hydropower development programme), and India's support of the Paris agreement on climate change, should bring a higher Natural Capital score. All in all, India's sustainability score is expected to improve over coming years.

CHINA

China's score is 31.50 and as a result it is not eligible. China is ranked 79th out of 123 countries, meaning it scores slightly below average of the countries analysed. Within the subgroup of Emerging economies, China ranks 44th out of 88 countries, meaning it is still on the median from an ESG perspective.

China's score increased by 3.14 points since last year. The average evolution of scores for the 123 countries is slightly positive, so China's score increased more than average. The country rose five places in the ranking since last year, delivering slightly improved performances on Human Capital, Natural Capital and Economic Capital, while its Social Capital score remains unchanged and is still set at zero.

The higher Human Capital score results from a higher Knowledge score, which is itself the consequence of an improvement in innovation metrics. These include rising R&D expenditure/GDP, total R&D expenditure and exports of High-Technology manufactured products. There was also a rapid rise in the number of patents filed per inhabitant, and in trademarks. Education metrics remain very good for international comparison, but unequal in terms of the socioeconomic origin of the students. China still lags developed countries when it comes to the proportion of the population accessing university education.

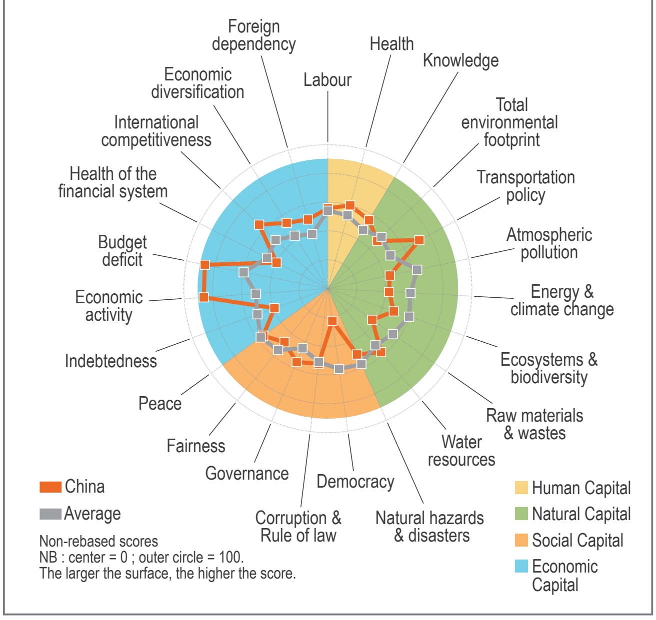
The Natural Capital score improved slightly thanks to growing investments in renewable sources of electricity (Hydro, Wind and Solar). However, coal power capacity is also still increasing, even though its share in electricity production capacity is decreasing. China keeps adding coal plant capacity, but is developing renewables faster. Its electricity mix remains poor (coal is still more than 70% of power generation capacity, although this figure is expected to decrease in the mid-term) but is improving. A reason for hope is the announcement of a substantial investment program into renewables over the next three years.

China's Social Capital score remains set at zero as, like last year, China fails the Democracy & Corruption screening due to its poor results in the area of Democracy and Human Rights. China's one-party political system forbids any political view which departs from the Chinese Communist Party (CCP)'s doctrine. Alternative parties are prohibited, and the few independent candidates who are allowed to stand for local elections face intimidation, harassment, and in some cases detention. The regime systematically punishes all citizens who publicize critical opinions on the internet on Chinese or foreign media. Thus, a growing number of Human Rights lawyers and bloggers have been imprisoned over the last two years. Freedom of the media doesn't exist in China as the government blocks thousands of websites, pressuring internet service providers into complying with its censorship. China is also criticized for cracking down on religious freedom, and for the widespread discrimination of ethnic minorities, among others. As a consequence, China scores poorly in Freedom House's Freedom In the World index, ranking 111th out of 123 countries, as well as in the World Bank's Voice and Accountability index where China ranks 119th out of 123 countries.

China's Economic Capital score improved slightly thanks to a gradual rebalancing of its economic model towards services from manufacturing, a lower dependency on external demand to fuel its economic activity, and a slightly wider trade surplus (already large,) illustrating how China remains very competitive internationally.

China's environmental prospects are rather positive, mostly thanks to a massive acceleration of investment in renewable energies. In 2016 alone, China installed 35 gigawatts of solar power generation capacity, which is almost as much as Germany's total installed solar power capacity. The trend is expected to continue, as China recently announced it would spend $361 billion on renewable energies up to 2020. China is also moving rapidly to implement measures aimed at mitigating atmospheric and water pollution which should result in an improving Natural Capital score in the mid to long term. We do not foresee any significant change in China's Human Capital and Social Capital scores in the short-term, as we do not expect any far-reaching reform. All in all, we predict a gradual improvement in China's sustainability score in coming years.

SUSTAINABILITY ASSESSMENT OF CHINA



Sources : World Bank, IMF, ILO, FAO, IEA

CONCLUSION AND OUTLOOK

As global markets continue to battle uncertainties and investors face a moderate yield environment, Candriam's overall approach to responsible investment and its robust, transparent ESG process based on four key capital domains, is ever more relevant.

Our tried-and-tested methodology explains not just the 'how' of our investment approach, but the 'why' behind our investment philosophy. We believe that analysing Social, Natural and Human Capital, as well as Economic Capital, and integrating these complex factors with our established financial analysis not only produces an ethical portfolio for the long term, but one that captures and manages both risk and opportunity.

The 2017 Report produced some expected and other less anticipated results. We find that the high-ranking places are continuously held by the same group of countries, demonstrating a solid commitment to the processes that propelled them to the top. Likewise, the bottom-ranking names appear to change little from year to year, due largely to the same macro factors such as conflict, corruption, misguided policy and misuse of environmental resources.

However, there are many positives – those countries which have, perhaps despite constrained skills and resources, made every effort to preserve and build on their capital base. These are the nations and economies likely to be of most interest to savvy investors.

This year saw improving economic scores for many emerging countries –India, Poland, Mexico, Indonesia, Ivory Coast, even if India and Poland scores dipped in other domains. The growing economic clout of emerging markets is evident. Looking at the largest emerging economies, we observe a reorientation of public policies in China and in India in favour of greener growth, while status quo seems to prevail in Russia and Brazil. Both China and India are implementing ambitious renewable energy development programmes, in accordance with the bold commitments they took following the COP21.

The outlook for the debt investors, and for many issuers, remains challenging. Overall, we expect stability among developed economies, maybe with some slight degradation of the overall score of the USA, and possibly a small decrease for the UK following Brexit, on the Economic domain.

South Korea could deliver a small improvement in coming years, due to its evident fight against corruption, and general improvement in Governance. France could also see a marginal improvement following the new government's business-friendly reform agenda, while Switzerland and Ireland might be challenged by the EU's effort to harmonize tax systems.

We feel that the Baltic countries and the Czech Republic should continue performing well, while Slovenia, Croatia, Serbia (and the Balkans in general) should gradually improve. Poland's sustainability score could decrease slightly following the recent deterioration of the rule of law. If Ukraine achieves peace in its Eastern provinces, and implements reforms, its performance is expected to jump.

We also expect some improvement in the scores of several African countries, as a growing number start to benefit from globalization. In Ivory coast, improving public governance should result in a higher sustainability score. In the Middle East and North Africa, Morocco and Tunisia are set to improve gradually, provided they manage to shield themselves from political instability and insecurity. However, if the Turkish government keeps moving away from Democracy, its score will be negatively affected. That factor has also penalised the overall ESG performance of many Asian countries which would usually score well in the Human Capital and Economic Capital domains.

DETAILED 2017 ESG COUNTRY SCORES

Country name	2017 Final country scores[1]	Delta 2016->2017	2017 Human Capital scores[2]	2017 Natural Capital scores[2]	2017 Social Capital scores[2]	2017 Economic Capital scores[2]
Sweden	100,00	~	72,58	72,77	77,83	67,44
Norway	93,85	~	72,06	67,69	78,30	61,27
Switzerland	90,31	▼	69,14	69,21	75,18	59,31
Iceland	89,32	~	66,70	66,55	74,21	63,55
Luxembourg	87,52	▲	63,24	63,59	73,97	66,92
Ireland	86,80	~	59,98	65,92	72,64	67,88
Denmark	86,35	~	68,32	66,68	77,12	53,47
Finland	86,35	~	68,85	69,44	75,88	51,42
Netherlands	85,75	~	67,79	57,71	75,78	63,19
Germany	85,62	~	67,97	63,08	71,42	61,77
Austria	82,90	~	69,09	67,64	72,56	49,95
Lithuania	81,71	▲	61,30	68,06	70,96	56,75
Estonia	81,47	~	61,98	64,12	70,53	60,01
Czech Republic	80,54	~	65,21	57,31	71,28	61,12
Malta	78,56	▲	59,66	63,61	65,16	62,87
Slovenia	77,97	~	62,52	61,56	68,75	57,39
New Zealand	77,77	~	65,25	59,85	73,31	51,45
United Kingdom	77,76	~	67,13	67,63	72,41	42,65
Latvia	77,43	~	57,99	68,84	64,24	58,13
Singapore	74,46	▲	69,14	60,23	52,89	61,50
France	73,77	~	64,75	67,91	65,92	43,93
Korea, Republic of	73,16	▲	70,50	52,49	61,35	57,05
Canada	73,14	▼	66,16	58,11	73,00	44,08
Slovakia	73,09	~	58,33	60,28	66,95	55,70
Belgium	72,62	~	63,42	59,92	72,92	44,15
Hong Kong	71,86	▲	59,09	62,19	57,01	60,72
Australia	71,27	~	66,55	55,20	70,97	45,19
Spain	70,11	~	58,66	63,01	67,97	46,15
Poland	69,22	~	60,65	52,87	64,80	55,85
Israel	69,04	▲	63,55	57,40	59,30	53,59
Japan	68,83	~	68,15	58,46	62,52	44,32
Portugal	66,96	~	57,59	64,21	69,83	38,41
Croatia	66,30	~	59,35	62,67	60,11	46,69
Romania	65,45	~	48,70	58,67	59,96	59,92
Uruguay	65,31	▲	53,90	62,30	64,39	46,39

(1) NB: these scores are rebased from 0 to 100.
(2) NB: these scores are NOT rebased. Only the final country scores are rebased from 0 to 100.
Eligible ESG country universe : Developed countries score >50 ; Emerging countries score >35

Sources : World Bank, IMF, ILO, FAO, IEA

DETAILED 2017 ESG COUNTRY SCORES

Country name	2017 Final country scores[1]	Delta 2016->2017	2017 Human Capital scores[2]	2017 Natural Capital scores[2]	2017 Social Capital scores[2]	2017 Economic Capital scores[2]
Bulgaria	65,13	~	52,26	52,15	56,83	65,42
Hungary	64,34	~	58,28	58,43	52,59	55,92
United States	62,85	~	61,07	48,00	64,43	48,99
Italy	62,21	~	56,21	60,38	63,53	41,20
Cyprus	61,56	▲	55,91	54,40	66,83	42,99
Costa Rica	60,76	▼	55,73	61,45	60,80	40,67
Chile	59,62	▼	54,15	52,09	62,90	47,42
Panama	58,33	~	43,17	58,81	50,93	61,29
Indonesia	58,13	▲	44,16	54,83	49,33	65,52
Namibia	57,91	~	41,07	65,01	58,97	48,37
Ghana	57,77	~	47,95	59,68	56,19	49,34
Colombia	56,72	~	48,35	58,57	54,21	50,12
Peru	56,02	~	47,60	58,28	51,42	52,66
Georgia	54,27	▲	44,38	51,90	61,09	49,37
Brazil	54,08	~	53,51	60,37	48,21	44,33
Morocco	53,81	▲	45,44	60,08	49,11	51,28
Malaysia	53,70	~	54,69	51,29	42,23	57,51
Belize	52,79	~	43,53	63,38	49,47	47,64
Philippines	52,78	▼	46,01	55,30	41,48	61,23
Sri Lanka	52,27	▲	47,23	59,58	47,83	48,45
Serbia	52,25	~	49,20	49,50	58,54	45,81
Argentina	52,10	~	50,83	58,27	50,93	42,76
Senegal	52,04	~	39,36	56,82	52,81	53,67
Zambia	51,44	~	37,99	60,65	42,81	60,11
Macedonia, the former Yugoslav Republic of	51,34	~	44,05	50,42	51,81	55,09
Albania	50,87	▲	46,43	53,10	56,06	44,92
Côte d'Ivoire	50,38	▲	39,80	59,00	41,25	59,56
Mexico	49,38	~	50,24	52,76	44,96	49,81
Armenia	48,88	~	48,33	56,45	48,23	43,85
Mongolia	48,85	~	52,88	50,32	51,74	41,87
Greece[3]	48,75	~	52,40	54,15	58,49	31,58
Bolivia, Plurinational State of	48,38	▲	48,16	58,85	40,22	48,73
El Salvador	46,93	▼	47,51	56,04	51,14	38,60

(1) NB: these scores are rebased from 0 to 100.
(2) NB: these scores are NOT rebased. Only the final country scores are rebased from 0 to 100.
Eligible ESG country universe : Developed countries score >50 ; Emerging countries score >35

Sources : World Bank, IMF, ILO, FAO, IEA

DETAILED 2017 ESG COUNTRY SCORES

Country name	2017 Final country scores(1)	Delta 2016->2017	2017 Human Capital scores(2)	2017 Natural Capital scores(2)	2017 Social Capital scores(2)	2017 Economic Capital scores(2)
Jamaica	46,49	~	41,38	51,40	50,84	48,86
Bosnia and Herzegovina	46,48	▼	44,29	50,51	50,67	47,00
Tunisia	45,52	~	46,72	55,37	51,56	37,06
India	45,20	▲	36,49	49,61	48,51	55,50
South Africa	43,82	~	44,39	48,84	55,86	38,51
Suriname	42,82	~	40,04	55,10	40,38	50,23
Trinidad and Tobago	40,00	▼	46,26	43,02	48,43	42,88
Turkey	34,36	▼	48,38	52,31	22,13	47,42
Viet Nam	34,32	~	64,16	51,06	0,00	54,95
Uzbekistan	31,91	▲	52,92	44,22	0,00	68,61
China	31,50	~	56,94	46,65	0,00	61,40
Paraguay	31,43	~	46,46	61,57	0,00	56,84
Tajikistan	30,56	▲	46,68	52,18	0,00	64,42
Thailand	30,02	▲	53,62	52,43	0,00	56,23
Belarus	29,74	~	57,19	55,94	0,00	48,65
United Arab Emirates	28,45	~	52,99	48,51	0,00	57,90
Azerbaijan	27,62	~	51,69	54,88	0,00	51,33
Cuba	27,32	▼	53,42	56,86	0,00	47,04
Kazakhstan	26,56	~	60,94	47,07	0,00	47,93
Ecuador	25,55	~	47,79	57,69	0,00	48,60
Dominican Republic	25,50	▲	39,49	52,97	0,00	61,53
Nicaragua	25,24	~	45,76	52,88	0,00	54,89
Honduras	25,23	▲	47,70	52,92	0,00	52,88
Tanzania, United Republic of	25,18	~	38,81	54,42	0,00	60,18
Guatemala	24,58	~	43,42	54,62	0,00	54,27
Russian Federation	23,96	~	60,41	48,82	0,00	41,95
Oman	23,63	~	57,41	48,75	0,00	44,40
Rwanda	23,27	~	46,05	54,39	0,00	49,47
Gabon	23,08	~	33,69	63,45	0,00	52,42
Qatar	22,82	~	53,93	47,55	0,00	47,61
Congo	22,64	▼	32,88	61,48	0,00	54,40
Cameroon	22,35	~	36,87	59,50	0,00	51,85
Ethiopia	22,30	~	35,42	57,02	0,00	55,68
Kenya	22,15	~	40,93	60,41	0,00	46,52

(1) NB: these scores are rebased from 0 to 100.
(2) NB: these scores are NOT rebased. Only the final country scores are rebased from 0 to 100.
Eligible ESG country universe : Developed countries score >50 ; Emerging countries score >35

Sources : World Bank, IMF, ILO, FAO, IEA

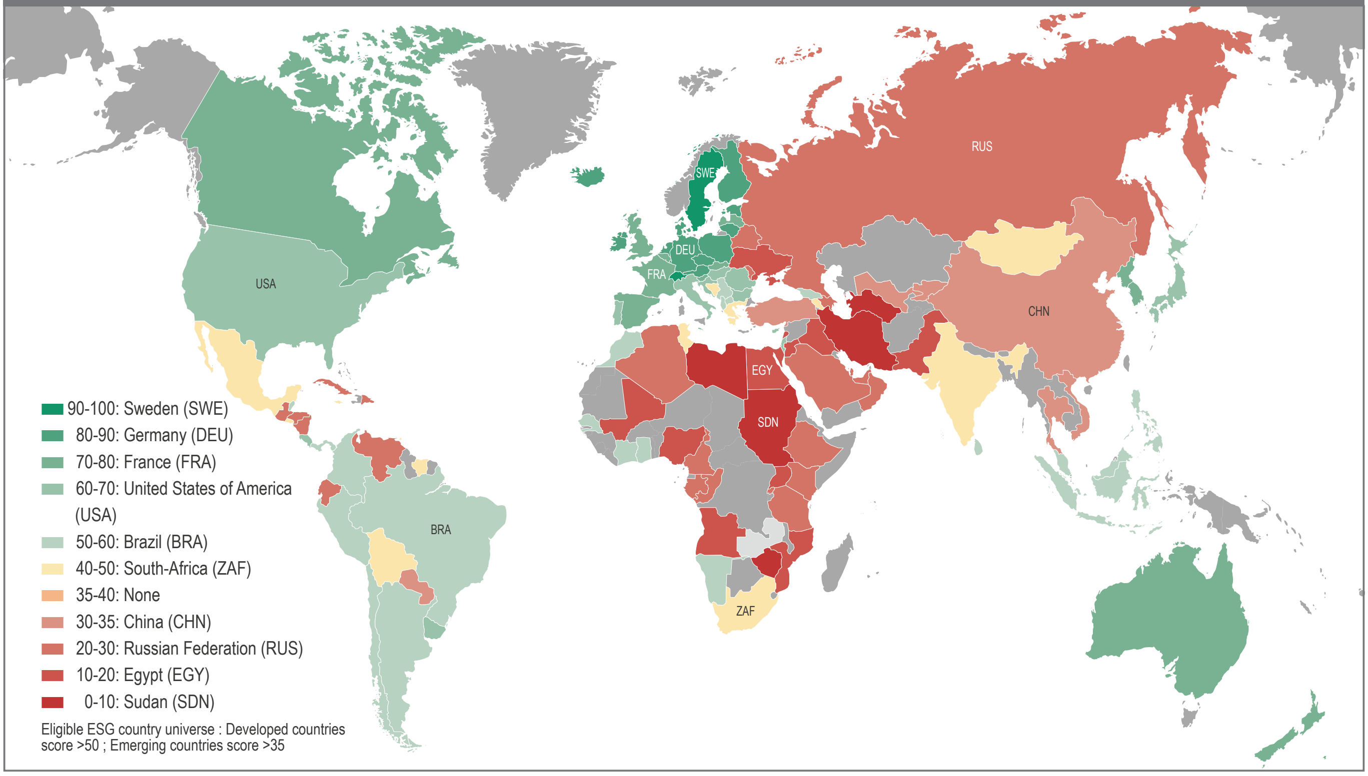
DETAILED 2017 ESG COUNTRY SCORES

Country name	2017 Final country scores(1)	Delta 2016->2017	2017 Human Capital scores(2)	2017 Natural Capital scores(2)	2017 Social Capital scores(2)	2017 Economic Capital scores(2)
Saudi Arabia	21,97	~	45,45	49,54	0,00	52,53
Algeria	20,97	~	40,87	52,77	0,00	52,05
Venezuela, Bolivarian Republic of	20,81	~	46,08	53,57	0,00	45,75
Moldova, Republic of	20,03	~	45,06	52,94	0,00	45,96
Jordan	18,81	▲	41,46	53,92	0,00	46,34
Uganda	17,66	▼	33,49	56,04	0,00	50,08
Bahrain	17,62	~	52,72	44,71	0,00	42,11
Egypt	16,85	▲	39,42	51,58	0,00	47,14
Angola	15,68	▼	27,02	64,60	0,00	44,37
Nigeria	15,29	~	27,84	57,85	0,00	49,58
Ukraine	14,29	▲	51,69	49,16	0,00	32,60
Mali	13,71	~	34,05	48,59	0,00	49,74
Lebanon	13,28	~	42,67	58,54	0,00	30,37
Mozambique	12,40	▼	33,84	53,32	0,00	42,80
Pakistan	10,86	▲	34,93	50,39	0,00	41,82
Iraq	10,64	~	27,07	47,67	0,00	52,01
Sudan	8,35	~	24,09	56,88	0,00	41,57
Zimbabwe	5,40	~	26,07	53,50	0,00	37,56
Libya	0,00	~	34,42	42,03	0,00	30,79
Iran, Islamic Republic of	0,00	~	49,76	45,37	0,00	58,74
Turkmenistan	0,00	~	44,33	42,01	0,00	61,68

(1) NB: these scores are rebased from 0 to 100.
(2) NB: these scores are NOT rebased. Only the final country scores are rebased from 0 to 100.
Eligible ESG country universe : Developed countries score >50 ; Emerging countries score >35

Sources : World Bank, IMF, ILO, FAO, IEA

2017 ESG COUNTRY SCORES



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