

Petercam L Bonds Emerging Markets Sustainable

Sub-fund of Petercam L

Quarterly extra-financial report
30/09/2014

Dear Client,

In recent months, tensions in various regions across the globe have risen. This began in Thailand, followed by a standoff between China and Japan and its other maritime neighbours. Russia invaded Ukraine, the forces of the Islamic State (IS) have taken positions at the Turkish border and violence in Gaza and Iraq is on the increase.

Emerging as well as developed economies are having to deal with conflicts and significant political instability. Nevertheless, financial markets have remained relatively unaffected by these developments and sovereign emerging market debt has performed reasonably well.

In addition to the geopolitical conflicts simmering in numerous places across the globe, the political calendar for the next few months is packed with important events, in particular the upcoming elections in Brazil, a major bond issuer.

More than ever, the sustainability analysis for emerging markets remains highly relevant, as borne out by the performance attribution analysis. Given that mounting tensions are leading to increased volatility, the value of the sustainability filter has become a more important contributor to the overall outperformance of the portfolio.

Democratic values and transparency are undeniably key factors for sustainable growth and development. That is the reason why the FISAB (Fixed Income Sustainable Advisory Board) reaffirmed, during the semi-annual review of the sustainability model, that this pillar is of utmost importance to the model.

Ophélie Mortier

Responsible Investment Co-Ordinator

Methodology

The methodology remained unchanged during the third quarter of 2014.

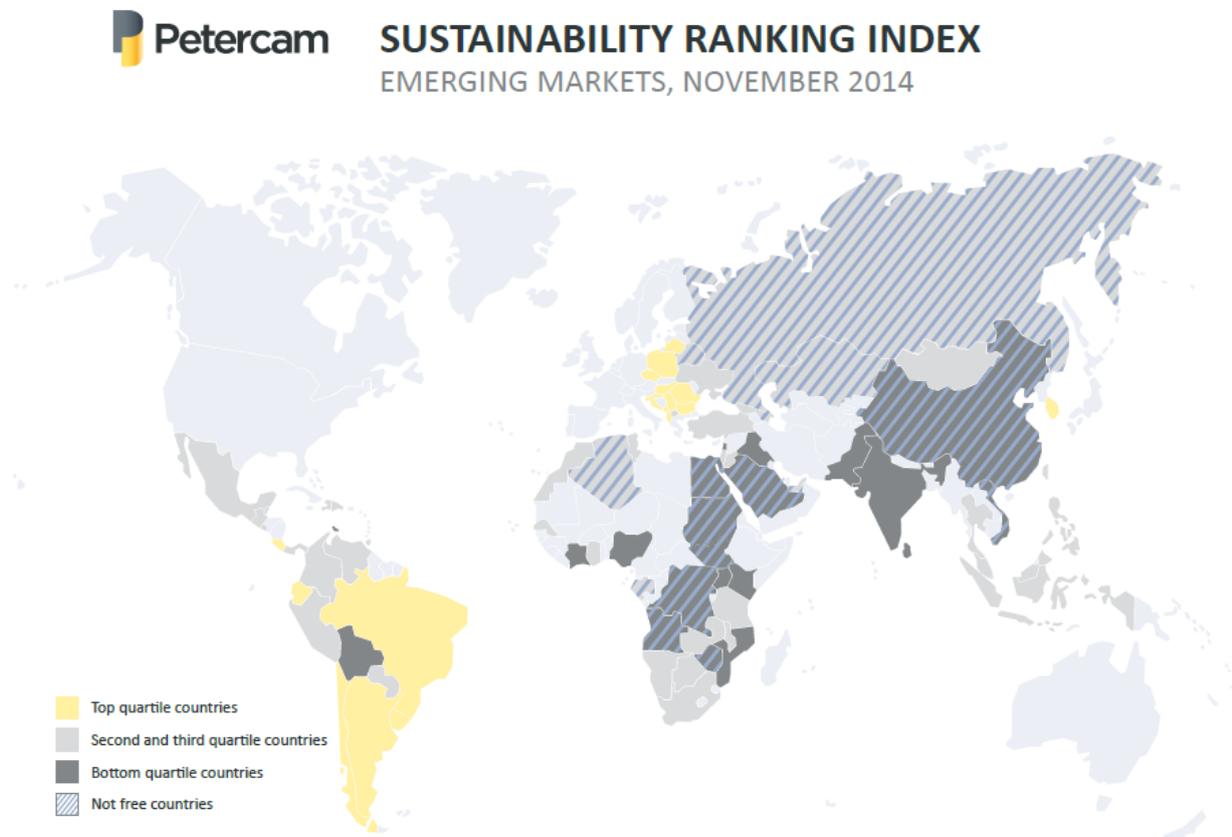
The FISAB (Fixed Income Sustainable Advisory Board) met at the end of September in order to assess the relevance of the selected criteria with a view to ensuring permanent improvement.

The main decisions relate to the universe covered and the relevance of the selected criteria.

In this context, three countries have been added to the initial investment universe: Albania, Armenia and Macedonia so as to open up new investment opportunities. Conversely, Slovakia and Latvia were removed from the initial investment universe as they joined the Eurozone. In addition, Togo is no longer part of the investment universe as there are virtually no investment possibilities in that country.

Several criteria were added to the model in order to enhance its predictability and the quality of measurability. Within the pillar of democratic values, a criteria relating to the strength of public institutions was added. Education now has one additional indicator: the rate of pupils graduating from primary school. Children pulled out of education before they complete primary school is a real problem in these regions as they are often enrolled but are soon forced to leave for various family or economic reasons. The number of protected sea and land zones is a new environmental criterion. Finally, the economic indicator of distance to the border makes it possible to measure the dispersion of the various economies compared to their best performance observed in terms of economic competitiveness.

Figure 1: Sustainability analysis - H2 2014



Sustainability ranking and changes to the eligible universe

The ranking was approved by the FISAB at the end of September 2014.

The investment guidelines are as follows:

- Minimum 40% of the portfolio invested in the first quartile
- Maximum 50% of the portfolio invested in the second and third quartiles
- Maximum 10% of the portfolio invested in the last quartile
- Countries indicated in red are excluded from the eligible universe

The update of the model has led to the exclusion of an additional country not respecting minimal democratic values: Egypt. It has joined the list of 18 other countries excluded from the universe as it was categorised 'not free' by Freedom House, as confirmed by *The Economist's* Democracy Index.

ESG score

The average and median scores are calculated for each sustainability pillar.

The average scores for all pillars have slightly fallen compared to the previous semester.

This is partly attributable to a change in the geographic scope. Specifically, Slovakia and Latvia obtained excellent scores and occupy respectively the 3rd and 6th position in the ranking while Albania, Macedonia, and Armenia in particular, obtained substantially lower overall scores.

Figure 2: Change in the 1st and 4th quartiles over 1 year

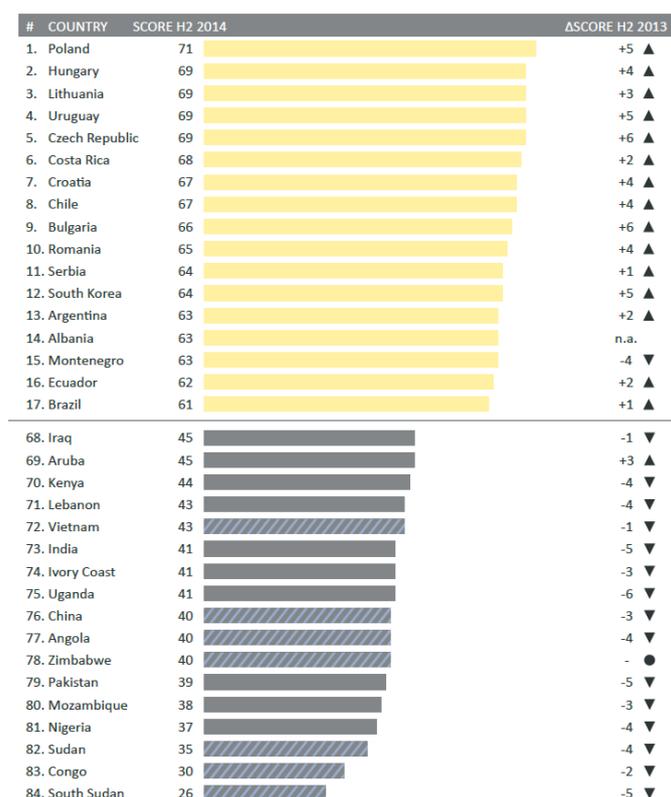


Figure 3: Sustainability ranking - October 2014

#	Country	H2 14	H2 13	#	Country	H2 14	H2 13
1	Poland	71	66	43	El Salvador	52	55
2	Hungary	69	65	44	Jordan	51	52
3	Lithuania	69	66	45	Armenia	51	-
4	Uruguay	69	64	46	Taiwan	51	56
5	Czech Republic	69	63	47	Thailand	51	54
6	Costa Rica	68	66	48	Paraguay	51	54
7	Croatia	67	63	49	Indonesia	50	53
8	Chile	67	63	50	Venezuela	50	55
9	Bulgaria	66	60	51	Guatemala	50	52
10	Romania	65	61	52	Bolivia	49	48
11	Serbia	64	63	53	Kazakhstan	49	50
12	South Korea	64	59	54	United Arab Emirates	49	47
13	Argentina	63	61	55	Senegal	49	51
14	Albania	63	-	56	Algeria	49	51
15	Montenegro	63	67	57	Azerbaijan	48	51
16	Ecuador	62	60	58	Morocco	47	48
17	Brazil	61	60	59	Tanzania	47	53
18	Panama	61	60	60	Bahrain	47	51
19	Belize	61	67	61	Sri Lanka	46	50
20	Israel	61	60	62	Saudi Arabia	46	43
21	Singapore	61	52	63	Egypt	46	48
22	Georgia	60	60	64	Russia	45	50
23	Tunisia	60	56	65	Rwanda	45	49
24	Namibia	60	55	66	Malawi	45	51
25	Jamaica	60	57	67	Zambia	45	46
26	Mongolia	60	56	68	Iraq	45	46
27	Macedonia	60	-	69	Aruba	45	42
28	Turkey	59	58	70	Kenya	44	48
29	Mexico	59	59	71	Lebanon	43	47
30	Dominican Republic	59	58	72	Vietnam	43	44
31	Hong Kong	59	51	73	India	41	46
32	Peru	59	57	74	Côte d'Ivoire	41	44
33	Philippines	59	59	75	Uganda	41	47
34	Colombia	58	59	76	China	40	43
35	Malaysia	58	53	77	Angola	40	44
36	Trinidad and Tobago	58	57	78	Zimbabwe	40	40
37	Gabon	58	54	79	Pakistan	39	44
38	Ukraine	58	57	80	Mozambique	38	41
39	Belarus	58	52	81	Nigeria	37	41
40	South Africa	57	55	82	Sudan	35	39
41	Botswana	57	52	83	Congo	30	32
42	Ghana	57	54	84	South Sudan	26	31

 Top quartile countries	 Bottom quartile countries
 Second and third quartile countries	 Not free countries

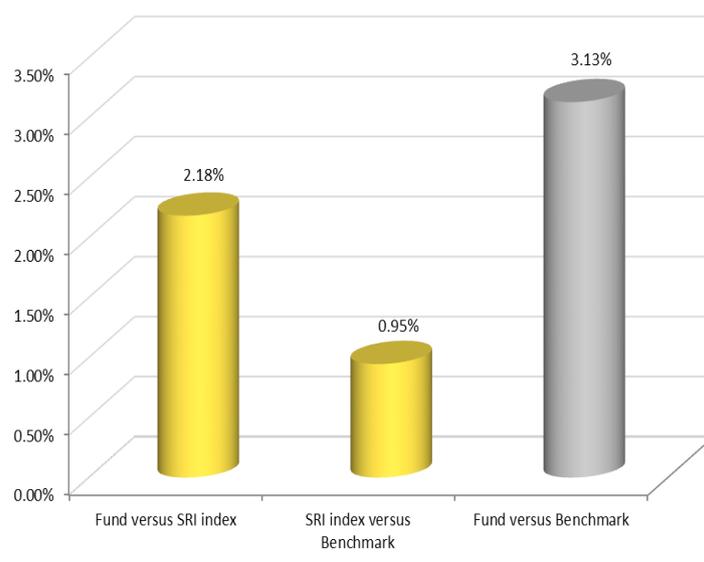
This ranking defines the eligible universe as of the last quarter of 2014.

Impact on the portfolio

The eligible universe remained unchanged. The strategy has continued to be resilient against the backdrop of market volatility with a return that has outperformed that of its peers.

The sustainability analysis of countries makes it possible to clearly identify investment risks and opportunities based on a holistic and fundamental approach that is independent of market indices.

Graph 1: Breakdown of the portfolio's alpha compared to its benchmark (30-9-2014)



Source: Point, Petercam

Graph 2: Optimisation of the risk/return ratio (30-09-2014)

Asset class	SRI Emerging Index	Petercam L Bonds Emerging Markets Sustainable - F	Benchmark 75% Local Currency and 25% Hard Currency
Ann.Return	1.06%	3.24%	0.11%
Ann.Risk	5.47%	5.59%	6.22%

Tracking Error Analysis

SRI Emerging Index	-	2.77%	2.19%
Petercam L Bonds Emerging Markets Sustainable - F		-	2.45%
Benchmark 75% Local Currency and 25% Hard Currency			-

Alpha Analysis

	Alpha	IR
Fund versus SRI index	2.18%	0.79
SRI index versus Benchmark	0.95%	0.43
Fund versus Benchmark	3.13%	1.28

Source: Point, Petercam

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