

RESPONSIBLE RETURN

INVESTMENT BOARD

Textile industry:
Producing garments and
labour law violations

ENGAGEMENT

Adidas and Puma

COMPANY OF THE MONTH

Lenzing

PIN IT DOWN

Clothes make a man,
a (wo)man makes clothes



Editorial



Wolfgang Pinner has been active in the field of sustainable investments for more than 10 years. He has written two books on this topic and represents Austria at the industry association "Forum Nachhaltige Geldanlagen".

At Erste Asset Management Wolfgang Pinner is Chief Sustainability Investment Officer and head of the Responsible Investments team.

The textile industry has had to deal with discussions about its working conditions for years. But it requires a veritable catastrophe for the sometimes disastrous environment in the manufacturing of clothes to be discussed by a wide public – much like the fire in the textile factories of Pakistan in September 2012 and in Bangladesh this May.

Why is it always the textile industry that produces negative news? To a certain extent this is due to the simple production processes and the low technological requirements. The replaceability of the producers at the low end of the value chain creates enormous cost pressure, which in turn manifests in low wages and other expenses in the factories.

The textile industry's public image is more vulnerable than most other sectors'. Expensive labels in particular find it difficult to deal with issues concerning their reputation. In view of the low share of production costs in the retail price, any violation is very hard to justify vis-à-vis the customer.

For sustainable investors the problems in connection with labour laws in the industry mean that only a few companies comply with strict ESG standards, although many well-known producers have been trying to improve their production standards. By signing petitions for better working conditions in textile companies the investor community can influence the producers in a focused and direct manner, and hopefully catastrophes like the one in Bangladesh will soon belong to the past.

Sincerely

Wolfgang Pinner
Head of SRI Team
Vienna, July 2013

Investment Board

The EAM Investment Board gives a structured form to the ongoing and responsive dialogue with and among sustainability research agencies. The Board provides the opportunity for the consultation process between own research and external research to take place. It also discusses rating details, the ESG's assessment of the IPOs of new issuers and sustainability issues in general.

Textile industry: Producing garments and labour law violations



80%

The textile industry dominates the economy of Bangladesh, accounting for almost 80% of export income of the South Asian country. Also, women make up 80% of the textile labour force. On its website the Bangladesh Garment Manufacturers and Exporters Association refers to the empowerment of women through employment, but fails to comment on the recent scandals.

Sources: www.sueddeutsche.de,
www.bgmea.com.bd
Photo: iStock

Do low prices automatically entail bad sustainability standards in production? As a rule, cost savings are pushed through where resistance is lowest. Brisk competition and low skill requirements make the worker at the sewing machine the weakest link in the textile value chain. At the moment Bangladesh and Vietnam are among the countries that pay the lowest wages. The problem does not only affect cheap clothes, but high-end labels are also often produced under degrading conditions.

Outsourcing is among the factors that additionally foster bad working conditions. One problem inherent to the textile industry is the sometimes cascade-like nature of the workflow in the production process. The supply chain from the factory to the retailer is not particularly transpar-

ent. The production outsourced to sub-contractors is often farmed out to even lower levels of outsourcees, which eventually presents the textile groups with control issues. In-

Sustainable optimisation as a *conditio sine qua non* for the textile industry

creasingly short delivery times of new product lines also promote a broad and obscure diversification of the production.

Whether retailers or textile groups, companies can counteract this problematic development by introducing profound due diligence across the entire supply chain. The suppliers have to be managed actively and made subject to auditing and con-

trolling procedures. Special awards for good working conditions could create positive competition among suppliers. Especially for prominent labels a sustainable optimization of the entire supply chain is almost obligatory due to the high reputation risk in case of labour law violations.

Status working conditions at textile companies:

Trustworthy NGOs, but also selected media and unions have been providing ever-improving data on working conditions in the textile industry. In the assessment of individual companies on the basis of ESG criteria, the issue of the supply chain accounts for a significant weighting of 20%.



≥ 2 violations

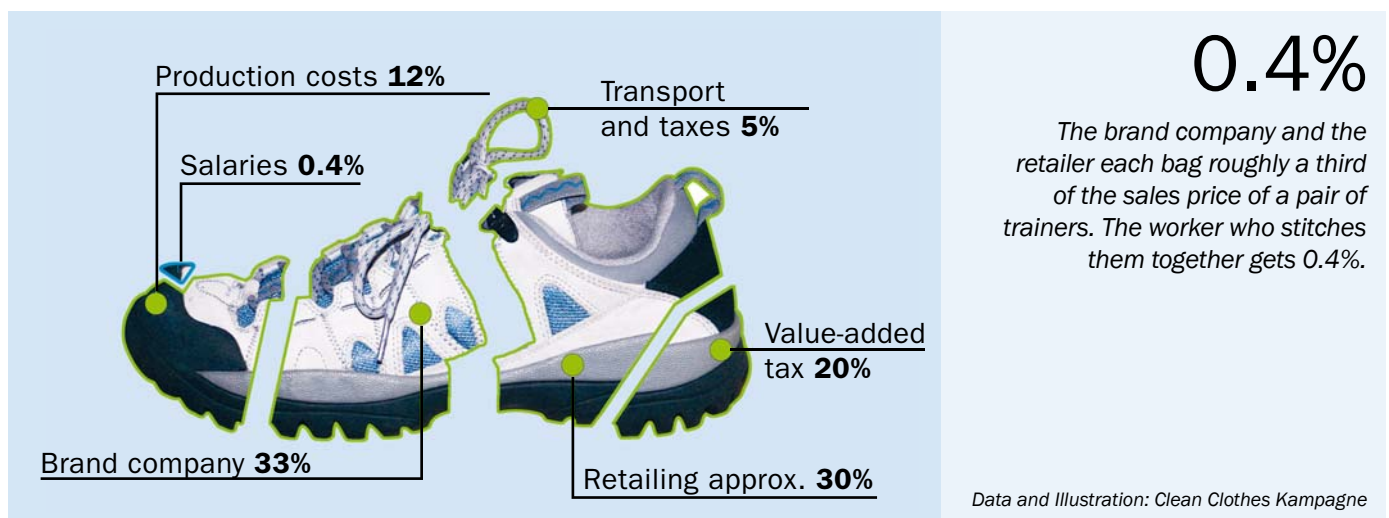
The term “sweatshop” dates back to 19th century England.

Originally it described businesses where the workers would produce textiles under sweaty(!), hazardous, and dangerous conditions. Since the term’s invention, the concept has undergone only little change: the US Department of Labor defines sweatshops as those companies where at least two workers’ rights are violated. Sweatshops employ mainly women, although these areas largely immune from law are also rife with child labour. According to an estimate by the International Labour Organisation, 15 million children are working worldwide in mines, quarries, on construction sites, in public utilities – and in manufacturing, such as tailoring.

Engagement

Engagement is of great importance for EAM's sustainable investment approach. It combines own initiatives with collaboration on a national and international level. The structured engagement process is based on the „EAM Engagement Guideline“ which determines engagement issues, approach and procedures.

Engagement focus on Working conditions in the textile industry



In 2003 the US company Nike was confronted by massive accusations of child labour in its sports shoes production line. It was then at the latest that customers and business observers became aware of the working conditions in the sports shoes sector.

Violations in spite of improved working conditions

In Europe, Adidas and Puma are among the biggest producers of sports shoes as well as of sportswear and accessories. Both companies have raised the standards of working conditions in their supply chain significantly in recent years. However, the two companies continue to commit proven cases of violation of labour legislation.

Whereas Puma declined to comment on current structures and possible

problems, Adidas responded to our enquiry. In its list of suppliers, Adidas has published the first level of its supply chain – mostly manufacturers – and their subcontractors. As far as the controlling systems are concerned, Adidas has created a dedicated team of experts – “Social & Environmental Affairs” – in order to ensure compliance within its supply chain. The code of conduct lays down the so-called “Workplace Standards”, i.e. the minimum standards of the working conditions.

Adidas responds to our enquiry, Puma keeps mum

New facilities are generally subject to a preliminary inspection and are only then cleared for production. In case of a “situation”, Adidas tries to respond to accusations with full transparency. The company publishes its comments on its website.

The main source countries of Adidas are China, Indonesia, and Vietnam. Adidas is keen on sustainable cooperation with its suppliers. At 0.05% of total procurement value, the often-cited negative example Bangladesh is of very limited importance to Adidas.

Status Adidas and Puma:

The criterion for exclusion of “worker rights” has been violated in both cases. From today's perspective, it will be possible to invest in Adidas again in June 2014. The blackout period for Puma would theoretically end in March 2014, but due to its lack of cooperation within our engagement process, we cannot admit the company into our investment universe in the foreseeable future.

Company of the month: Lenzing

The Company of the Month is selected due to recent developments and in connection with the **topic of textile industry**. The EAM Responsible Investments team analyses the strengths and weaknesses of the selected company in terms of ESG.

The company based in Lenzing (Attersee, Austria) produces all three generations of man-made cellulose fibres - from the classic viscose fibre to Modal and lyocell fibre.

Ecological alternative to cotton:

Lenzing makes its products from the renewable raw material wood. In the global fibre market, man-made cellulose fibres currently command a market share of 5.7%. At 59.2%, synthetic fibres account for the lion's share, followed by cotton (33.7%). Especially TENCEL®, the latest-generation fibre, excels on account of its environmentally friendly production technology: Producing TENCEL® requires almost 20 times less water than producing cotton fibres. The finished fibre has attractive features such as firmness, good fluid absorption, and skin friendliness.

Working conditions.

The working conditions in the processing of yarns derived from fibres do not depend on the choice of fibre. Fabrics are often made from a mixture of different yarns.

In fiscal 2012 Lenzing recorded group sales of EUR 2.09bn. The volume of fibres sold increased by almost 14% to about 810,000 tons. The company with production facilities in Austria, the UK, USA, China, and Indonesia supplies high-quality, man-made cellulose fibres derived from wood to the global woven and non-woven industry.

Environmental management system.

Without exception, all fibre and cellulose production locations have been certified according to the system standards ISO 9001, ISO 14001, and OHSAS 18001. In 2002 Lenzing became the first fibre producer to be awarded the "EU Ecolabel".

Transparency and company principles.

In recent years, Lenzing has developed and implemented an extensive set of ESG-based guidelines, a sustainability philosophy, and a code of conduct. These measures address all important social stakeholders and relevant topics, e.g. corruption and work safety. However, the regulations do not seem to cover all locations equally well yet. In procurement, Lenzing has laid down environmental and social criteria.

Steering committee.

The company has set up a "Steering Committee for Sustainability". It consists of a member of the management board, the two heads of the business units "Textile Fibers" and "Nonwoven Fibers", and the heads of the two Corporate Centers "Safety, Health, and Environment" and "Corporate Communications".

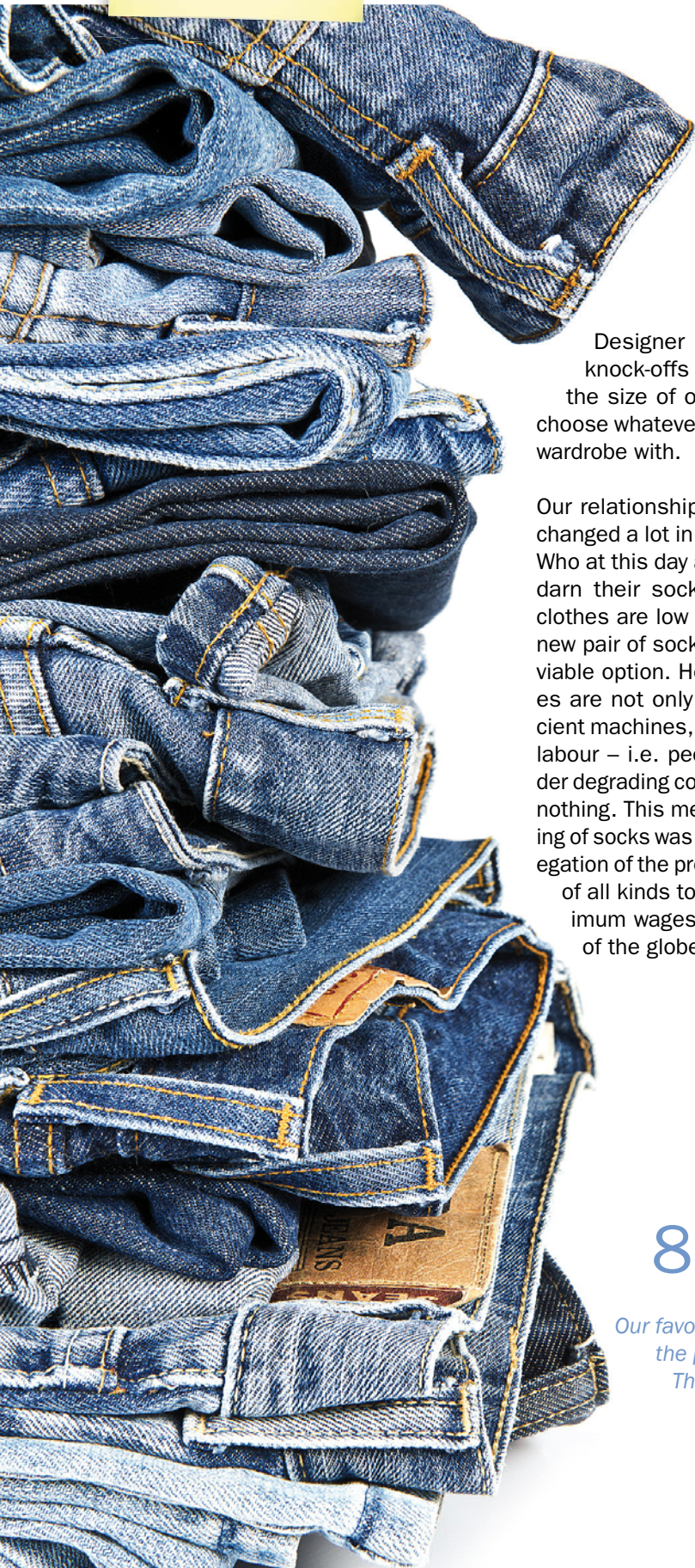


Wolfgang Pinner, posing in front of the source material of TENCEL® & Co during a Lenzing factory tour.

Key figures for Lenzing

Source: Bloomberg

Sector	Commodity Chemicals
ISIN	AT0000644505
Share price (16.07.2013)	57.80 EUR
PE (16.07.2013)	10.32
Dividend yield	3.03%



pin it down

Closing words by
Wolfgang Pinner

Clothes make a man, a (wo)man makes clothes

Who among us does not want to be well-dressed and win others over with their appearance? ,
asks Wolfgang Pinner, Chief Sustainability Investment Officer of Erste Asset Management

Designer labels or cheap knock-offs depending on the size of our wallets we can choose whatever we want to fill our wardrobe with.

Our relationship with clothes has changed a lot in the past decades. Who at this day and age would still darn their socks? The prices of clothes are low enough to make a new pair of socks an economically viable option. However, these prices are not only facilitated by efficient machines, but also by human labour – i.e. people who work under degrading conditions for next to nothing. This means that the darning of socks was followed by the delegation of the production of clothes of all kinds to workers paid minimum wages on the other side of the globe.

But low wages are only one aspect of the problem – a lack of safety standards is another one. Of course the way out of the calamity of inflammable textile factories close to collapse, as we know them from parts of Asia, is not an easy one. Those companies that are listed on the stock exchange and/or cannot risk damage to their reputation are vulnerable. The anonymous low-cost clothes from the 10-euro shop are hard to tackle.

Still, Erste Asset Management joins forces with investors to act today rather than tomorrow. Bundling forces and signing petitions for better working conditions are a step into the right direction. In May 2013 more than 200 investors from 16 countries with assets of USD 1.5 trillion formed an alliance in response to the devastating catastrophe in Bangladesh – enough to sensitise the targeted companies further...

8.200 litres of water

Our favourite legwear for leisure time and on casual Fridays is thirsty: the production of one pair of jeans requires 8.200 litres of water. This number is mainly due to the enormous water consumption involved in the growing of cotton, the raw material of jeans. Raw denim jeans are the most ecologically agreeable ones, since they are not pre-washed, bleached, or sandblasted.

Changes in the Responsible Investment Universe

The definition of our investment universe is the corner stone in building our funds.

+ INCLUDED

JUNE/JULY 2013

Alcoa Inc (sector: "Aluminium")

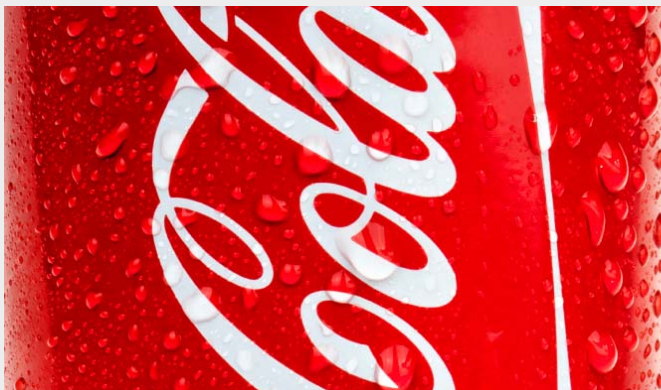
is among the global leaders in aluminium production. The company mainly supplies its products to the aviation, automotive, packaging, transportation, and construction industry.

- ⊕ Adherence to work safety, health, and environmental management system according to OHSAS 18001 and ISO 14001 across the group
- ⊕ Extensive measures to increase the share of recycled aluminium in the production
- ⊕ Little progress in cutting the energy intensity of Alcoa's production processes
- ⊕ Criterion for exclusion (corruption in the form of bribes paid in Bahrain from 1997 to 2009) has lapsed

Coca-Cola HBC AG (sector: "Soft drinks")

is one of the world's biggest bottlers of products of The Coca-Cola Company. The company produces and sells carbonated and non-carbonated soft drinks as well as mineral waters.

- ⊕ All production sites are certified according to quality and environmental management systems ISO 9001 and ISO 14001
- ⊕ No usage of genetically modified raw materials or ingredients
- ⊕ 100% of the wastewater resulting from the production process is recycled; goal for 2020: to decrease the water intake by 40% relative to 2004
- ⊕ Comprehensive measures to reduce packaging material
- ⊕ Underdeveloped strategy with regard to sustainable cultivation methods (fertilising, soil degradation, deforestation, etc.)



60%

Recycled materials account for 60% of the aluminium cans and glass bottles produced by Coca-Cola HBC Austria. Using recycled aluminium means energy savings of 95% compared to the processing of new aluminium.

Source: www.coca-colahellenic.at,
Photo: iStock

- EXCLUDED

Mayr-Melnhof Karton AG (sector "Paper packaging")

is one of the leading producers of cardboard and packaging material. The company is the world's biggest producer of coated recycled cardboard.

- ⊕ Insufficient company guidelines and code of conduct as far as ESG aspects are concerned
- ⊕ Limited information concerning any strategy aimed at the reduction of raw material usage
- ⊕ Comprehensive information on the procurement of wood and fibres from sustainable sources
- ⊕ Extensive measures taken to reduce and replace hazardous substances

Responsible funds at a glance

Erste Asset Management recognized the importance of responsible fund management early on. Over the course of the past decade we have developed and successfully introduced a broad range of sustainable funds. The following funds are available in line with Erste Asset Management's „Responsible Investment Approach“.

Equity Funds

All funds are denominated in Euro.

Fund name	Since 1. 1.	2012	2011	2010	2009	2008	Mgmt. fee	Volume in mn.	Average ESG- Rating	Risk notes ¹⁾
ERSTE RESPONSIBLE STOCK GLOBAL	11.39	9.51	-4.90	16.61	29.66	-37.42	1.50	218.7	C+	A, B
ERSTE RESPONSIBLE STOCK EUROPE	6.33	20.88	-23.03	9.40	27.01	-54.99	1.50	10.7	B-	A, B
ERSTE RESPONSIBLE STOCK AUSTRIA	-5.27	29.19	-38.75	16.63	36.08	-56.62	1.50	6.9		A, C, D
ERSTE RESPONSIBLE STOCK EUROPE EMERGING	-6.82	24.99	-31.51	16.65	55.19	**	1.80	14.9		A, B, D
ERSTE RESPONSIBLE STOCK AMERICA*	14.68	11.45	-10.62	16.13	24.92	-42.27	1.80	42.5		A, B
ERSTE WWF STOCK CLIMATE CHANGE	24.39	-7.35	-25.66	3.19	21.37	-45.82	1.50	9.2		A
ERSTE WWF STOCK UMWELT	14.38	5.63	-23.39	14.25	17.84	-48.02	1.50	42.7		A

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 30 June 2013. The management fee is included in the performance. Subscription fees applicable at the time of purchase of up to 5.00% and other fees that may reduce returns, such as individual account and deposit fees, are not included in this presentation. Past performance is not a reliable indicator of the future performance of a fund. Please note that it is not possible to draw any conclusions on the volatility or risk of an investment from annualized averages for multi-year periods.

* in USD, renaming und shift of focus as of 8 April 2013 (former name: ESPA STOCK AMERICA)

** Fund inception during fiscal year

1) Risk notes

- A The ERSTE RESPONSIBLE STOCK GLOBAL, ERSTE RESPONSIBLE STOCK EUROPE, ERSTE RESPONSIBLE STOCK AUSTRIA, ERSTE RESPONSIBLE STOCK EUROPE EMERGING, ERSTE RESPONSIBLE STOCK AMERICA, ERSTE WWF STOCK CLIMATE CHANGE, and ERSTE WWF STOCK UMWELT funds may display increased volatility due to the composition of the portfolio. As a result, share values may be subject to significant fluctuations even over short periods of time.
- B The ERSTE RESPONSIBLE STOCK GLOBAL, ERSTE RESPONSIBLE STOCK EUROPE, ERSTE RESPONSIBLE STOCK EUROPE EMERGING, and ERSTE RESPONSIBLE STOCK AMERICA funds may invest significant amounts in derivative instruments (including swaps and other OTC derivatives) pursuant to Paragraph 73 of the InvFG 2011 (Investment Fund Act, Austria).
- C The ERSTE RESPONSIBLE STOCK AUSTRIA fund is an index fund pursuant to Paragraph 128, section 5 line 1 in conjunction with Paragraph 75 of the InvFG 2011 (Investment Fund Act, Austria). The aim of the investment strategy is to emulate the VÖNIX (VBV Austrian Sustainability Index).
- D The ERSTE RESPONSIBLE STOCK AUSTRIA and ERSTE RESPONSIBLE STOCK EUROPE EMERGING funds may invest significant amounts in sight deposits or deposits with a maturity of no more than 12 months pursuant to Paragraph 72 of the InvFG 2011 (Investment Fund Act, Austria).

Bond funds, mixed funds

All funds are denominated in Euro.

Fund name	Since 1. 1.	2012	2011	2010	2009	2008	Mgmt. fee	Volume in mn.	Average ESG- Rating	Risk notes ²⁾
ERSTE RESPONSIBLE RESERVE **	-0.05	5.33	0.60	2.21	10.99	-2.91	0.24	57.1		-
ERSTE RESPONSIBLE BOND	-0.85	10.57	0.94	1.72	9.07	4.51	0.60	143.2		a)
ERSTE RESPONSIBLE BOND EURO-CORPORATE	-0.32	12.89	*				0.60	114.1	B-	-
ERSTE RESPONSIBLE BALANCED	-0.52	*					1.20	4.2	B-	b)

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 30 June 2013. The management fee is included in the performance. Subscription fees applicable at the time of purchase of up to 3.50% and other fees that may reduce returns, such as individual account and deposit fees, are not included in this presentation. Past performance is not a reliable indicator of the future performance of a fund. Please note that it is not possible to draw any conclusions on the volatility or risk of an investment from annualized averages for multi-year periods.

* Fund inception during the fiscal year

** formerly: ERSTE RESPONSIBLE LIQUID, renamed on 5 July 2013

2) Risk notes

- a) The ERSTE RESPONSIBLE BOND fund may invest significant amounts in derivative instruments (including swaps and other OTC derivatives) pursuant to Paragraph 73 of the InvFG 2011 (Investment Fund Act, Austria).
- b) The ERSTE RESPONSIBLE BALANCED fund may invest significant amounts in investment funds (UCITS, UCIs) pursuant to Paragraph 71 of the InvFG 2011 (Investment Fund Act, Austria).

Microfinance funds

All funds are denominated in Euro.

Fund name	Since 1. 1.	2012	2011	2010	2009	2008	Mgmt. fee	Volume in mn.	Risk notes ³⁾
ERSTE RESPONSIBLE MICROFINANCE	0.84	3.20	2.48	0.79			1.00	24.7	x)

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 30 June 2013. The management fee is included in performance. Subscription fees applicable at the time of purchase of up to 3,00% and other fees that may reduce returns, such as individual account and deposit fees, are not included in this presentation. Past performance is not a reliable indicator of the future performance of a fund. Please note that it is not possible to draw any conclusions on the volatility or risk of an investment from annualized averages for multi-year periods.

3) Risk notes

- x) The ERSTE RESPONSIBLE MICROFINANCE fund may invest significant amounts in investment funds (UCITS, UCIs) pursuant to Paragraph 7 line 1 of the InvFG 2011 (Investment Fund Act, Austria):

Warning pursuant to the InvFG 2011 (Investment Fund Act, Austria): The ERSTE RESPONSIBLE MICROFINANCE invests entirely in assets pursuant to Paragraph 166, Section 1 line 3 of the InvFG 2011 (Alternative Investments), which represent a higher investment risk compared to traditional investments. In particular, these investments may result in a loss or even a total loss of capital invested.



Glossary

Engagement

In the context of sustainable investments, Engagement means that the investor tries to convince the management of a company to take action in the fields of social responsibility, environment or transparency. On a national basis, the Erste Asset Management Responsible Investments Team carries out its engagement activities itself, on a global basis the team co-operates with a specialised provider.

ESG

ESG is an abbreviation of Environmental, Social and Corporate Governance and refers to sustainability in business.

Exclusion criteria

The Erste Asset Management responsible funds do not invest in sectors or companies that violate certain (exclusion) criteria, e. g. violation of labour regulation, nuclear energy, etc. These criteria include ethical, social and governance risk factors.

Investment Board

In this board, the Erste Asset Management Responsible Investments Team discusses topical issues and current developments, IPOs, etc. with sustainability specialists and financial experts.

Investment universe

An investment universe designates the amount of investable companies and countries. In order to become part of the Erste Asset Management Responsible Investment Universe, companies need to perform above average with regards to sustainability. From this selection the fund manager picks those companies with the best prospects according to their fundamental financial data. The Erste Asset Management Responsible Investment Universe is updated on a monthly basis, which enables quick reaction to changes within the respective companies.

SRI

Socially Responsible Investments

SRI Rating agency / SRI Rating

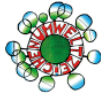
An SRI rating agency or SRI research agency analyses and rates the activities of companies according to social, ecological and ethical criteria (e.g. A = best grade to D = worst grade). SRI ratings help investors to assess a company's exposure to environment and stakeholders. The Erste Asset Management Responsible Investments Team co-operates with several SRI-rating agencies covering different key aspects. In contrast to SRI rating agencies, finance rating agencies (e. g. Moody's, Fitch, S&P etc.) focus on companies' financial data only.

Voting

In the context of sustainable investments, voting refers to the exercise of voting rights at shareholder meetings. Possible targets are an increased transparency in management compensation or in case of nominations for the board of directors. Like in its Engagement activities, the Erste Asset Management Responsible Investments Team cooperates with specialised partners in the area of voting.



Sustainability labels for our products



Our long-term partners in sustainability



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