

RESPONSIBLE RETURN

INVESTMENT BOARD

Quantity beats quality on the plate?

ENGAGEMENT

Fight against obesity

COMPANY OF THE MONTH

Nestlé

LASTING WORDS

The many facets of sugar
and food pathologies



Editorial



Gerold Permoser is Chief Investment Officer (CIO) of Erste Asset Management. In this function he is in charge of the asset management activities and investment strategies of all investment funds of the Erste Asset Management Group in Austria, Croatia, Czech Republic, Germany, Hungary, Romania and Slovakia.

The World Health Organisation is facing a new kind of problem. After the focus had been on malnutrition for years, it has now shifted to the other extreme: Excess nutrition has reached previously unknown levels in many parts of the world. The terms obesity and adiposity describe the same phenomenon: the diet of many people does not correspond to their lifestyle any longer, the body weight of the affected persons increases, which puts their health at risk. Yet obesity is by far no affluence problem anymore. In the emerging countries the number of people suffering from obesity has also increased dramatically.

As tends to happen in many cases, here, too, the industrial sector is regarded as the root cause of the problem. The criticism focuses on fast food: oversized portions, the excessive speed at which food is consumed, and the high fat, salt, and sugar content are some of the basic evils of bad nutrition. Further points of contention with the food industry are the high marketing and advertising budgets for products that are actually unhealthy, and the use of flavour enhancers, colourants, and odorants aimed at the customers' appetite.

Of course for the time being, the ever-growing number of people indulging in excess nutrition has a positive effect on sales at McDonald's and other fast food chains. However, this situation could soon change. The governments in countries with belly-growing populations are worried about exploding healthcare costs. The affected companies can feel the pressure to counteract this development by modifying their products and launching marketing campaigns.

Sincerely

A handwritten signature in black ink that reads "Permoser". The signature is written in a cursive, flowing style.

Mag. Gerold Permoser
Chief Investment Officer (CIO)

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.

Excess nutrition – quantity beats quality on the plate

BMI = $\frac{\text{Mass [kg]}}{(\text{Height [m]})^2}$

> 30

Adiposity or obesity is a condition defined by a body mass-index (BMI) of more than 30. A BMI below 18.5 is considered underweight, from 18.5 to 25 is regarded as normal, and 25 to 30 is considered overweight.

In the member states of the OECD, an average of almost 17% of the adult population is obese. However, even the European no.1 (UK, 23%) pales in comparison with USA and Mexico: 33.8% of the US population, and 30% of all Mexicans are obese.

Sources: World Health Organisation Europe: „The challenge of obesity in the WHO European Region and the strategies for response - Summary“; OECD, Obesity Update 2012; Photo: Fotolia

Bad nutrition and the rapid increase in the number of overweight people have triggered changes across numerous business sectors. Not only the sectors automatically associated with this issue such as food, gastronomy, and retail are affected. The producers of pharmaceuticals as well as insurance companies are also facing new challenges, because obesity and adiposity cause illnesses further down the road such as diabetes, fat metabolism disorders, hypertension, and cardiovascular diseases.

“Sugar is the new tobacco” – this is a worry many a company has been confronted with. The risks for producers of food considered unhealthy go beyond possible lawsuits by consumers. There is also the regulatory risk of the possible introduction of

junk food taxes or taxes on luxury food with high fat or sugar content. The food industry has reacted to the threat with modifications to its range of products, among other things. Ex-

Possible fat and sugar taxes scare the industry

isting products are tweaked towards a “less unhealthy” option, sugar and fat content are being reduced. Companies are drawing up multi-annual plans that target the reduction of frowned-upon ingredients. Fast food chains have discovered fruits and vegetables. Also, new, healthier products are introduced, and the labelling standards are being improved. For example, the GDA, i.e.

Guideline Daily Amount, is supposed to help the consumers in their daily food intake.

In order to underline the healthy aspect of their goods, food manufacturers rely on functional food and organic products. However, functional food tends to lack the proof of positive health effects. Organic food cannot contribute directly to the fight against obesity and adiposity. That being said, a more conscious selection of food is often the trigger of a healthier diet, which may help to reduce weight.

Status quo “healthy nutrition”: in the EAM multi-factor model, the issue of “Health and Nutrition” is factored in at about 7% for companies in the food industry.



18%

In addition to health problems, calorie bombs can cause all sorts of financial harm: according to the OECD obese people earn up to 18% less than people with normal weight.

In this context, the OECD cites the suboptimal opportunities of obese jobseekers.

The fact that the latter often belong to a lower stratum of education surely also contributes to the pay gap.

National economies do not exactly thrive on their citizens' gluttony either.

In fact, the OECD estimates that healthcare spending caused by obesity accounts for up to six percent of total healthcare expenses in the European member states of the WHO, and the percentage continues to increase.

Sources: The Organisation for Economic Co-operation and Development (OECD): Obesity Update 2012, World Health Organisation (WHO) Europe: „The challenge of obesity in the WHO European Region and the strategies for response – Summary“; Photo: Fotolia

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 “fight against obesity”



Sugar, fat, and alcohol contain the highest amount of calories. For example, a bar of milk chocolate with egg liqueur filling (100g) provides the body with more than 520 calories, and a salami pizza (340g) contains some 880 calories. In total, those two items provide the body with some 75% of the basal metabolic rate (BMR)* of a 40 year old male weighing 80kg. The basal metabolic rate is a function of gender, body height, body weight, and age. The liver and the skeletal muscles consume roughly a quarter of the BMR each. Whoever wants to know their actual daily calorie requirement has to take into account their lifestyle. You will find numerous models to calculate the personal calorie requirement, for example [here](#)

* the amount of energy required by the body to maintain its functions for 24 hours while resting

Sources: www.kalorientabelle.org, www.wikifit.de, www.gesundheit.gv.at, Spektrum der Wissenschaft (www.spektrum.de), Illustration: Fotolia

In March 2013 the Access to Nutrition Index, which compares the nutrition standards of the world's largest food manufacturers, was calculated for the first time. The European companies Danone, Unilever, and Nestlé were ranked first, second, and third. Data about excess nutrition and malnutrition are fed into the index. The Sustainability Team of Erste Asset Management asked the top-three ranked companies specific questions on adiposity. In this engagement process Unilever turned out to be uncooperative, whereas the communication with Danone and Nestlé went without friction.

With their strategy of healthier nutrition, the companies target a product range that is nourishing, wholesome, and at the same time affordable for

Nestlé and Danone take a stance vis-à-vis obesity

the customers. Danone has introduced a “nutrition check” for all product launches.

When promoting healthier food, the improvement of blockbuster products is much more effective than the introduction of “healthy” niche products. From 2010 to 2012, Danone improved the recipes of 26% of its products. In 2012 alone, Nestlé optimised the content of sodium, sugar, fat, calories, and artificial colouring for 6,692 of its products. The Sustainability Team

of Erste Asset Management is critical about functional food which is enriched with additional ingredients. However, many food producers classify their functional food as particularly healthy products among their range of products. Danone claims

Functional food is not without controversy

that healthy products account for 84% of its range; this also included the functional food yoghurts Activia and Actimel.

The improved information provided to the customers appeals to their sense of personal responsibility. In order to positively influence the consumers in their product selection, Danone and Nestlé have developed standards that exceed the GDA* such as the Nestlé Nutritional Compass. Danone places the respective product information in a prominent spot, i.e. at the front of the packaging, in 97% of the cases.

* GDA: Guideline Daily Amount, see p.3

Status Danone, Nestlé and Unilever: all three companies are currently investable. Due to its refusal to communicate, we put Unilever on a watch list, and will contact the company again with an aim to engage.

Company of the month: Nestlé

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

The global group from the Lake Geneva is well-known for its brands like Nespresso, Perrier, and Maggi. In the past, Nestlé has often been the target of scandals such as with baby formula in the developing countries, the group's role in the privatisation of drinking water, and the use of palm oil and GM raw materials in food production.

Sustainable raw materials.

Nestlé introduced the so-called Nestlé Supplier Code in order to ensure the sustainability in its purchases and in the relations to its suppliers. This code stipulates minimum standards for suppliers, their employees, and sub-suppliers. The Nestlé Supplier Code includes issues of labour laws such as forced labour, child labour, working hours, wages, non-discrimination, and the freedom of association. The code also lays down standards for workplace, product quality and safety, environmental pollution, and the support of farmers. With its initiatives Nestlé ranks among the top companies of its peer group in terms of sustainability of raw materials.

Research and Development.

Nestlé defines the development of high-quality and safe products as goal of its Research and Development (R&D) activities. About 5,000 employees work for the group in worldwide 32 R&D and technology centres, which makes this the world's biggest private R&D network. Among the pinnacle achieve-

Nutrition Information	Per 100g	Per portion 115g	%GDA* per portion
Energy	1244kJ 296kcal	1432kJ 341kcal	17%
Fat	9.8g	11.3g	16%
of which saturates	2.6g	3.0g	15%
Carbohydrate	41.2g	47.4g	18%
of which sugars	5.3g	6.1g	7%
Fibre	1.0g	1.2g	5%
Protein	10.2g	11.7g	23%
Sodium	0.4g	0.5g	21%

* GDA are Reference Intakes of an average adult (8400 kJ/2000 kcal)
Pack contains 4 portions
Portions should be adjusted for children of different ages

NUTRITIONAL COMPASS © © Reg. Trademark of Société des Produits Nestlé S.A.



ments of the Nestlé research department was the development of child flour in 1867, which contributed significantly to reducing the hitherto high rate of childhood mortality. In 1886 the company produced the first instant soup from peas and bean flour. In 1938 Nestlé developed the first instant coffee in the world (Nescafé), and in 1986 Nespresso followed.

Labelling.

In 2006 Nestlé introduced the so-called Nestlé Nutritional Compass® which the group puts on all of its products. The new standard revolves around a nutrition table that contains information on the energy content and the most important nutrients. It also shows contact details for more detailed information, advice on a balanced diet, and details on ingredients.

In fiscal 2012 Nestlé recorded group sales of CHF 92.2bn. The group has a headcount of 265,000 worldwide and operates 100 subsidiaries as well as 481 factories in 87 countries.

Nestlé is global market leader in food, ice cream, bottled water, and pet food.

Key figures for Nestlé

Source: Bloomberg

Sector	Food
ISIN	CH0038863350
Share price (18.09.2013)	62.75 CHF
PE	19.25
Dividend yield	3.27%

LASTING WORDS

The many facets of sugar and food pathologies

“If you combine a trip to London with a visit of Hampton Court Palace, you can tread in the footsteps of a veritable glutton”, says Gerold Permoser, Chief Investment Officer (CIO) of Erste Asset Management.

Henry VIII was not only famous for his six wives, but also for his enormous weight. The guided tour will show you a number of suits of armour made for him throughout his life. They range from 34 inches in diameter for young Henry VIII to 60 inches for a later period in his life.

What does that have to do with our topic? A lot, because 500 years ago obesity was a “privilege” of the upper crust. Today obesity is mainly a problem of the lower social classes (i.e. income and/or education). The diet has been and still is not only a personal matter, but it is also always a social, economic, and political phenomenon.

For example, the Industrial Revolution would not have been possible without sugar, one of today’s great dietary problems. Whereas

at the beginning of the machine age sugar had been a luxury good, in the 19th century it became a fixed component of the diet of the working class. Without sugar, which packs a lot of calories into a small space and is

No sugar – no Industrial Revolution

comparatively durable and easy to transport, it would have been impossible to feed the huge number of workers in the newly created industrial towns with the infrastructure available back then.

Issues concerning food are equally complex today. After Lula da Silva was elected president of Brazil in 2002, he launched a programme aimed at fighting hunger (Fome Zero). Shortly thereafter, a study was published according to which even in Brazil about 20% of the population is affected by obesity, and only 5% by famine. What this teaches us: even in emerging countries, it’s all about the quality, not the quantity of food.

In view of the complexity of food pathologies such as obesity, investors have to be aware of the fact that companies in this sector also bear a certain degree of responsibility. This awareness manifests itself within the framework of the EAM sustainability approach. But at the same time it goes without saying that obesity, too, is caused by dietary habits and lifestyle – factors that adults have to influence themselves. Passing on the responsibility to “the corporations” is not the way to go.



Photo: Fotolia

Responsible Investment Universe

Changes (excerpt)

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

+ INCLUDED

AUGUST/SEPTEMBER 2013

Toyota Motor Corp (sector: automobile manufacturers)

is one of the biggest car manufacturers worldwide, producing mainly passenger cars and trucks, car accessories, and spare parts. The company also offers financial services for car dealers and buyers, telematics solutions, and IT and telecommunication services.

- ⊕ biggest manufacturer of hybrid cars worldwide, extensive efforts in the development of fuel cells
- ⊕ takes into account environmental aspects in practically all stages of the product life cycle
- ⊕ little transparency with regard to the work, health and safety standards demanded from suppliers
- ⊕ frequent call-backs due to safety failings



3,8l – 4,8l

According to the manufacturers, hybrid vehicles make traffic cleaner, citing a minimum consumption of 3.8l/100km for the Lexus CT200h. Testers like the German automobile club ADAC have stated a slightly higher petrol consumption of 4.8l, which is still very economical for a 1.4 tonne limousine.

Sources: www.lexus.de, www.adac.de; Photo: Fotolia

- EXCLUDED

GlaxoSmithKline PLC (sector: pharmaceuticals)

is one of the most important pharmaceutical groups worldwide. The company produces drugs and vaccines as well as healthcare products and hygiene articles.

- ⊖ violation of exclusion criterion “controversial business practices”: bribes paid to doctors and employees of health authorities in China
- ⊖ extensive measures to improve access to pharmaceuticals and vaccines in developing countries
- ⊖ comprehensive company guidelines with regard to health and safety standards; required also from suppliers

Svenska Cellulosa AB (sector: household products)

is a globally operating producer of cellulose and wood fibre products, cardboard packaging, and paper and wooden products.

- ⊖ violation of exclusion criterion “labour law”. According to reports by the International Trade Union Confederation, foreign workers from Cameroon received unfair payment, were coerced into advance payments to engagement agencies, and were generally put under pressure
- ⊖ auditor also acts as consultant in important issues
- ⊖ company forests are fully certified in accordance with the Forest Stewardship Council
- ⊖ suppliers have to comply with FSC and PEFC certification with regard to the origin of wood and cellulose

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		Exclusion Rate	Risk notes ¹⁾
									Fund	Univ.		
ERSTE RESPONSIBLE STOCK GLOBAL	14.75	9.51	-4.90	16.61	29.66	-37.42	1.50	235.3	C+	C-	72.9 %	A, B
ERSTE RESPONSIBLE STOCK EUROPE	13.87	20.88	-23.03	9.40	27.01	-54.99	1.50	11.3	C+	C	49.4 %	A, B
ERSTE RESPONSIBLE STOCK AUSTRIA	6.80	29.19	-38.75	16.63	36.08	-56.62	1.50	10.2				A, C, D
ERSTE RESPONSIBLE STOCK EUROPE EMERGING	-2.37	24.99	-31.51	16.65	55.19	**	1.80	12.1				A, B, D
ERSTE RESPONSIBLE STOCK AMERICA*	15.46	11.45	-10.62	16.13	24.92	-42.27	1.80	47.7				A, B
ERSTE WWF STOCK CLIMATE CHANGE	47.32	-7.35	-25.66	3.19	21.37	-45.82	1.50	10.7				A
ERSTE WWF STOCK UMWELT	29.72	5.63	-23.39	14.25	17.84	-48.02	1.50	58.8				A

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 30 September 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 Fund	Univ.	Exclusion Rate	Risk notes ²⁾
ERSTE RESPONSIBLE RESERVE **	0.35	5.33	0.60	2.21	10.99	-2.91	0.24	61.9				-
ERSTE RESPONSIBLE BOND	-0.09	10.57	0.94	1.72	9.07	4.51	0.60	144.3	B-	C-	74.1 %	a)
ERSTE RESPONSIBLE BOND EURO-CORPORATE	1.02	12.89	*				0.60	118.9	C+	C-	74.4 %	-
ERSTE RESPONSIBLE BALANCED	0.73	*					1.20	5.3				b)

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 30 September 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.	Average ESG-Rating Funds	Average ESG-Rating Univ.	Risk notes ²⁾
ERSTE RESPONSIBLE MICROFINANCE	2.05	3.20	2.48	0.79			1.00	25.1			x)

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 31 August 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.





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