

RESPONSIBLE RETURN

INVESTMENT BOARD
Plantations running rampant

ENGAGEMENT
Cleaning Up Cleaners

DANONE
Sustainability through
ISO and DROP

PIN IT DOWN
Ecological footprint
beneath palm trees



Editorial



Wolfgang Pinner is Chief Sustainability Investment Officer and heads the Responsible Investments team at Erste Asset Management.

The term sustainability derives originally from the timber industry. Very early on, there was a realisation that we shouldn't cut down more forest than we plant. There is no other way if resources are to be secured on a sustainable basis.

When we hear of the deforestation of virgin forests, our thoughts tend to go in the direction of South America and the Amazon. In fact, virgin forests in Asia and Africa are also facing great danger. The destruction of forests in these regions is quite often linked to the creation of palm oil plantations. Although the issue surrounding the harvesting of oil from the fruits of the oil palm is not yet at the forefront of the consciousness of sustainability-aware investors, it is increasingly perceived as an important factor in connection with the destruction of the rain forests.

Malaysia and Indonesia are reckoned the world's leading producers of palm oil. Most recently, however, marked growth in the surface area of palm oil plantations has also been observed in Africa.

The problems associated with the planting of new palm oil plantations are the same on all continents. The ungratifying 'side effects' include the loss of rain forests, the removal of indigenous peoples and land-grabbing. It is not for nothing that a public political debate about imposing a higher tax on palm oil is currently taking place in France.

More and more multinational groups find it necessary to explain their position regarding their palm oil purchasing policy - the reputational risk is rising. Many companies have responded to the criticisms expressed by those concerned about the environment with self-regulation, but in many cases there is potential for further improvement. Against this backdrop, Erste Responsible Return has dedicated this month's edition of the ESG Letter to the issue of palm oil and our commitment and activities in this regard.

Sincerely

Wolfgang Pinner
Head of SRI Team

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.

Extensive expansion of palm oil plantations



Between 1970 and 1979, the average annual increase in areas planted with oil palms in Indonesia totalled 14,000 hectares; between 2000 and 2009, this figure had surged to 340,000 hectares. Oil palms are considered to be extremely economical since they produce high yields

Margarine, detergents, biofuel, cosmetics – our entire consumption is soaked in palm oil

and are easy to cultivate. Both palm oil and palm kernel oil can be harvested from the plant, which bears fruit all year round. Palm oil (global production in 2011: 50.6 million tons) is used mainly in the food industry (mar-

garine, sweets) and, in part, also for biodiesel. Palm kernel oil (global production in 2011: 5.7 million tons) is used in the detergent and cleaning agent industry and in cosmetic products.

Since the expansion opportunities for new plantations are by now limited in Asia, expansion is focusing on other regions. Hence, growth of palm oil production in Africa has been very high recently. The main markets for palm oil in 2010 were India (6.5 million tons), China (6.3 million tons), the EU (6.0 million tons), Indonesia (5.2 million tons) and Malaysia (2.2 million tons).

Due to the ecological and social problems associated with unchecked growth of palm oil plantations – such

as destruction of the environment and of habitats – an initiative by the WWF led to the creation of the „Roundtable on Sustainable Palm Oil“ (RSPO) in 2004. The aim of the RSPO is to promote sustainable cultivation methods for palm oil, thus limiting the damage to the environment. In 2010, the Palm Oil Coalition was established

The „Palm Oil Coalition“ advocates sustainable oil sources

by Malaysian and Indonesian palm oil producers in response to the criticism levelled at the rapid destruction of rain forests. This group comprises six organisations from Malaysia and Indonesia, the two countries that account for 85% of global palm oil production. In 2011, the „Forum for Sustainable Palm Oil“ was established in Berlin. The Forum was initiated by Henkel, Rewe Group and Unilever, by the WWF and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. Its aim is to promote the use of sustainably produced palm oil and palm kernel oil.

Status palm oil: The way in which the companies handle the resource of palm oil must be called into question critically. The issue of palm oil and its sourcing is analysed and assessed in detail in the Best-in-Class approach of Erste Asset Management who in 2011 launched and supported a number of engagement initiatives.



>10 m hectares

More than 10 million hectares of Indonesian and Malaysian plantations serve the production of palm oil. Our thirst for oil is at the expense of the rain forest. For oil palms prosper only in tropical climate – where they quickly squeeze out the planet's green lungs.

Sources: geo.de, 25. 10. 2012 and GEOkompakt Nr. 30, 03/12; Picture: iStock

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 „palm oil procurement“

A vast array of companies in the consumer goods sector are affected by the debate surrounding sustainability and palm oil. Some of them – for example, Colgate Palmolive, Procter & Gamble, General Mills, Henkel, Danone, Kraft/Mondelez and Heinz – form part of

Purifying oil through certificates and at roundtables

the sustainable EAM investment universe. The companies' responses to the potential reputational problem associated with the use of palm oil vary. Many of them refer to the „Roundtable on Sustainable Palm Oil“ (RSPO), with which the companies collaborate with varying degrees of close cooperation. A good number of companies have additionally committed themselves to ensuring the sustainable sourcing of palm oil for all their products in future, usually within the next two to three years.

The sustainability specialists at EAM are in active dialogue with major companies that are of interest to the fund management regarding „standards of palm oil procurement.“ Most recently, there has been active engagement with Henkel, Danone and Kraft/Mondelez.

Specifically, the companies' approaches are as follows: Henkel, one of the leading consumer goods groups in sustainability management, has defined six sustainability targets, one of which focuses on „materials and waste.“ Within this area, Henkel has set

* CSPO: certified sustainable palm oil



Foto: iStock

itself the following target: „To obtain certification from the Roundtable on Sustainable Palm Oil (RSPO) by 2015 for all palm and palm kernel oil used as raw material in our products.“ In addition, Henkel is in dialogue with its raw



RSPO: The label of the „Roundtable on Sustainable Palm Oil“ indicates environmentally friendly palm oil.

material suppliers to persuade them to switch their production to sustainable palm and palm kernel oil. EAM considers Henkel's commitment and communication on the subject of palm oil to be above the sector average. Kraft/Mondelez replied to the question of reputational risks in connection with the purchasing of palm oil as part of the EAM Engagement Process as follows: „We purchase RSPO-certified palm oil (50% of our use) and plan to

cover 100% of our requirements by 2015.“ This means that the company is, in fact, purchasing certified palm oil. By contrast, in response to an enquiry from EAM, Danone stated that it buys additional palm oil from suppliers who are RSPO members. In terms of its commitment, this is less ambitious than Kraft/Mondelez. However, Danone has committed itself to covering 100% of its palm oil requirement from dedicated CSPO* sources by 2014.

EAM's sustainability specialists will integrate the progress made by companies in achieving the targets they have set themselves into its monitoring process and check whether they are adhering to the commitments they have themselves made.

Status Henkel, Danone and Mondelez: ongoing engagement process since 2012

Foto: Hess AG



5 %

*growth p. a.
Thanks to the ever-increasing urbanisation, the lighting sector expects an average annual growth of 5% until 2020. With LEDs and solar lamps Hess AG puts its focus on energy efficiency.*

Changes in the investment universe, November 2012

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



Included

Persimmon PLC

(Homebuilding sector) is one of the UK's biggest builders of houses and apartments. Initiating coverage.

- High percentage of houses and apartments that fulfil sustainability standards (energy efficiency, insulation etc.)
- In 2011, brownfield projects accounted for 57% of total projects and more than 50% of the building timber was from certified sources (FSC, PEFC, SFI etc.)
- Careful handling of energy, water and other resources during the construction phase
- Increasing adoption of recycling measures (building rubble, construction materials etc.)

Hess AG

(Sector: Electrical Components & Equipment) is a provider of energy efficient (e.g. LED) and functional lighting for outdoor use (public places, etc.) and complex lighting solutions (e.g. lighting of historical buildings).

- High percentage of energy-efficient products
- Comprehensive sustainability report 2011/12 drafted on the basis of the guidelines compiled by the Global Reporting Initiative (GRI)
- Signatory of the UN Global Compact (human rights, labour standards, protection of the environment and fight against corruption)



Excluded

Tyco International

(Sector: Security & Alarm Services) is a supplier of fire protection and integrated solutions (fire detection technology, video surveillance, access control systems, etc.).

- Violation of the exclusion criterion of corruption. The US Securities Exchange Commission (SEC) and the US Department of Justice accused the company under the terms of the US Foreign Corrupt Practices Act of corruption activities by subsidiaries designed to secure existing agreements and new agreements, including in China, France, Germany, Thailand, Turkey and Saudi Arabia. The company agreed with the authorities to pay a fine of USD 26 million and to expand its internal controls in order to avoid the same incident happening again in the future.

Company of the month: Danone

The French company Danone produces dairy products, drinks, baby and toddler food and medical nutrition products. In our SRI universe it is among the top three companies in the food & beverages sector. Key topics within the sector are sustainable farming and water management, product safety, suppliers and food and health.

Raw material management

According to the company, the milk supply can be traced back to the producer. Feed components have been changed to launch a programme aimed at reducing the methane gas production resulting from cattle farming. The group also processes palm oil, whose origin cannot be completely documented at the moment. Danone has undertaken to switch to exclusively sustainable and certified sources by 2014. In addition, a commitment to process non-genetically modified raw materials would be desirable.

Water consumption

Since water plays a key role in Danone's production process, the company has set, measured and reviewed its own water consumption targets in its production plants since 2000.

Danone has **102,000 employees** and is the world's second-largest producer of biscuits and dairy products.

Further product ranges of the company include drinks, baby food and clinical/medical nutrition products.

56% of annual sales are generated in Europe, 15% in Asia and 29% in other regions.

Sales by product break down into Danone dairy products (58%), baby food (19%), mineral water (16%) and medical nutrition (6%).



Six Stages

Sourcing, industrial production, transport, sale, consumption and end of cycle – with this illustration Danone describes the six stages involved in all Danone products. On its website, the company affirms its striving to integrate social, societal and environmental dimensions in all of them.

Illustration: Danone

Since 2010, the company has been testing and implementing the „DROP“ programme, which takes into account water consumption along the entire value chain and also evaluates the negative and positive effects on the water cycle.

Certifications and standards

To ensure quality in all production lines, more than 80% of production sites are equipped with an ISO 22000-certified management system for food safety. According to Danone, approximately 70% of suppliers had signed up to the fundamental social principles of the company by the end of 2010; these are based on the principles of the International Labour Organisation (ILO) and include topics such as child labour, discrimination, working hours, work place safety, etc.

Product quality

This year, Danone has begun to check the composition of its products with regard to their impact on health and announced that it would reduce the sugar, salt and fat content. Moreover, certified organic products are on offer in the USA via its subsidiary Stonyfield. For developing countries, it is offering special affordable products that are guided by local tastes.

Key Figures at Danone SA

Sector	Food Products
ISIN	FR0000120644
Share Price (14.11.2012)	EUR 48.95
PE-Ratio	17.3
Dividend-Yield	2.84 %

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“.

Stock Funds

All funds are denominated in Euro.

Fund name	YTD	1 Year p.a.	3 Years p.a.	5 Years p.a.	Since fund inception	Mgmt. fee	Volume in mn.	Risk notes ¹⁾
ESPA VINIS STOCK GLOBAL	8.66	11.67	8.53	-0.87	5.59	1.50 %	217.93	A, B
ESPA VINIS STOCK EUROPE	18.36	11.61	1.22	-11.68	0.52	1.50 %	8.53	A, B
ESPA VINIS STOCK AUSTRIA	16.99	5.35	-6.20	-14.39	3.45	1.50 %	4.72	A, C, D
ESPA VINIS STOCK EUROPE EMERGING	17.96	6.57	-0.38	n.v.	-6.85	1.80 %	8.91	A, B, D
ESPA WWF STOCK CLIMATE CHANGE	-10.11	-13.62	-9.39	-15.25	-13.46	1.50 %	7.79	A
ESPA WWF STOCK UMWELT	3.59	1.31	0.00	-11.60	-3.28	1.50 %	39.23	A

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 30.09.2012. 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.

1) Risk notes

- A The ESPA VINIS STOCK GLOBAL, ESPA VINIS STOCK EUROPE, ESPA VINIS STOCK AUSTRIA, ESPA VINIS STOCK EUROPE EMERGING, ESPA WWF STOCK CLIMATE CHANGE, and ESPA 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 ESPA VINIS STOCK GLOBAL, ESPA VINIS STOCK EUROPE, and ESPA VINIS STOCK EUROPE EMERGING 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 ESPA VINIS 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 ESPA VINIS STOCK AUSTRIA and ESPA VINIS 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	YTD	1 Year p.a.	3 Years p.a.	5 Years p.a.	Since fund inception	Mgmt. fee	Volume in mn.	Risk notes ²⁾
ESPA VINIS CASH	4.99	4.67	2.64	3.06	3,06	0.24 %	35.96	–
ESPA VINIS BOND	9.05	9.41	4.18	4.86	4,72	0.60 %	142.85	a)
ESPA VINIS BOND Euro-Corporate	11.09	11.48	n.v.	n.v.	8,77	0.60 %	77.28	–
ERSTE RESPONSIBLE BALANCED	n.v.	n.v.	n.v.	n.v.	n.v.	1.20 %	n.v.	b)

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 30.09.2012. 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.

2) Risk notes

- a) The ESPA VINIS 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	YTD	1 Year p.a.	3 Years p.a.	5 Years p.a.	Since fund inception	Mgmt. fee	Volume in mn.	Risk notes ³⁾
ESPA VINIS MICROFINANCE	2.09	3.30	n.v.	n.v.	1,89	1.00 %	24.25	x)

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 30.09.2012. 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 ESPA VINIS 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 ESPA VINIS MICROFINANCE invested 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.

Renaming of Funds

Current name

ESPA VINIS STOCK GLOBAL
 ESPA VINIS STOCK EUROPE
 ESPA VINIS STOCK AUSTRIA
 ESPA VINIS STOCK EUROPE EMERGING
 ESPA WWF STOCK CLIMATE CHANGE
 ESPA WWF STOCK UMWELT
 ESPA VINIS CASH
 ESPA VINIS BOND
 ESPA VINIS BOND EURO-CORPORATE
 ESPA VINIS MICROFINANCE

New Name as of 30.11.2012

ERSTE RESPONSIBLE STOCK GLOBAL
 ERSTE RESPONSIBLE STOCK EUROPE
 ERSTE RESPONSIBLE STOCK AUSTRIA
 ERSTE RESPONSIBLE STOCK EUROPE EMERGING
 ERSTE WWF STOCK CLIMATE CHANGE
 ERSTE WWF STOCK UMWELT
 ERSTE RESPONSIBLE LIQUID
 ERSTE RESPONSIBLE BOND
 ERSTE RESPONSIBLE BOND EURO-CORPORATE
 ERSTE RESPONSIBLE MICROFINANCE

As of 30 November 2012, all ESPA VINIS funds will be re-branded to ERSTE RESPONSIBLE funds. The fund names of the WWF product family will remain the same, while the prefix ESPA will change to ERSTE. The profile of all sustainable funds will remain unchanged.

pin it down

Closing words by
Wolfgang Pinner

The ecological footprint beneath the palm trees

When it comes to the sustainability issue of palm oil, amazing connections with the personal ecological footprint of the average European can be found or, rather, constructed.



36 tons

We guzzle 71% of the global palm oil production of 50.6 m tons. That makes approximately 36 tons of cookies, frying fat, etc per year.

Source: sueddeutsche.de, 06.09.2012

As we know, in essence, our ecological footprint consists of the following factors: living, food, daily mobility, other consumption and travel. It is difficult to find a logical connection between palm oil and our living habits: Our virgin forests have long disappeared, and in these parts of the world the oil palm only grows in the greenhouse. The connection becomes clearer, however, when we start to think about the foods we favour. Although palm oil is not yet as dominant in everyday use in our kitchens as it is in some regions of Asia, its importance is rising rapidly. And we should not forget the quantities of margarine and sweets we consume - which may turn out to be rain forest killers. As far as daily mobility is concerned, European car drivers may find palm oil in their tanks in the form of a biodiesel mix. With regard to other consump-

tion, detergents and cleaning agents come into the picture.

However, since no labelling requirements in connection with palm oil exist for most of the products in question, consumers are faced with a difficult task. The only exception is fats, where EU regulations require that the type of oil used must be specified on food packages. The demands of Mammon ensure that the food industry processes large amounts of imported tropical palm oil and fats – after all, palm oil is the cheapest vegetable oil on the world market by a good margin!

It is difficult for consumers to support initiatives aimed at ensuring the sustainable cultivation of palm oil. All they can do is to inform themselves about the palm oil standards of those

producing their daily chocolate ration. And they can do more: gather information, get in touch with the companies and raise awareness of the problem. In this way, consumers are able to live the principle of commitment on a small scale – and institutional investors can serve as role models in this regard.

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

Wolfgang Pinner is Chief Sustainability Investment Officer at the Erste Asset Management and leads the Responsible Investments at the ERSTE-SPARINVEST.

Our long-term partners in sustainability



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