

RESPONSIBLE RETURN

INTERVIEW with Martin Cech, ERSTE
RESPONSIBLE MICROFINANCE manager:
“Microcredits are corporate bonds
with a high payback ratio”

COMPANY OF THE MONTH
Acleda Bank Plc

LASTING WORDS
All I want for Christmas
is loan



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.

Fighting poverty with capitalism?

The rise of the Habsburgs to the most important and powerful House in Europe originated in the Netherlands. As heir to his wife, Mary of Burgundy, the later Emperor Maximilian claimed the then wealthiest part of Europe for his offspring. One of the main reasons why the Netherlands evolved into a proto-capitalist system was the emergence of a capital market, which provided the economy reliably with cheap capital for the construction of dams and for sea trade.

History illustrates that capital is required for the birth of a functioning economy – on every level, even the most basic one. Without capital, as defined according to economists as property, buildings, means of production etc, there can be no production. And this sort of capital is massively lacking in many regions of the world, because banks very often just cannot offer credit, i.e. capital, on a micro level while at the same time covering their costs due to their business models and controlling systems.

In 2006 Muhammad Yunus was awarded the Nobel Peace Prize (NOT the one in Economic Sciences!) for having created a practical solution to this problem: the Grameen Bank. A bank that has replaced traditional forms of collateral with group guarantees. It has secured its roughly 7mn customers, some of who live in abject poverty, access to microcredits and thus to the realisation of their entrepreneurial ideas.

Reading Yunus' acceptance speech, it becomes clear how a man with an academic background could turn into a pragmatic helping hand and how he obviously finds it easy to combine the worlds of finance, economic development, women und human rights with the successful fight against poverty.

Interestingly, Yunus has decided to go down a path that is similar to Erste Asset Management's approach in its SRI product range. We do not work against the grain of market economies, but we allow our fund management team to excel where it is best – achieving a goal in an efficient way.

Sincerely

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

Mag. Gerold Permoser
Chief Investment Officer (CIO)

Interview

Since 2010 Martin Cech has been in charge of the management of ERSTE RESPONSIBLE MICROFINANCE, an actively managed umbrella fund that invests in a variety of microfinance vehicles. In November 2013 it was awarded the “Österreichischer Dachfonds Award” (Austrian Umbrella Fund Award). In an interview Martin Cech explains the investment strategy of the fund and the nature of micro-loans.



Martin Cech: „Microcredits are corporate bonds with a high payback ratio“

ERSTE RESPONSIBLE MICROFINANCE is mainly geared to investors who act sustainably and want to provide their capital for the long term. It is not a donation, but promotes entrepreneurship and yields an adequate return.

*Martin, you are our most experienced fund manager in the SRI team of Erste Asset Management, and you have been in charge of the ERSTE RESPONSIBLE MICROFINANCE fund ever since it was launched. What does microfinance mean?**

Microfinance comprises the idea of granting financial services to people who usually do not have access to bank services. As a result, microfinance is prevalent mostly in emerging and developing countries. But microfinance also includes other financial services such as savings products, insurance, payment services, and technical support.

What exactly does the ERSTE RESPONSIBLE MICROFINANCE investment fund do?

Our fund is an actively managed umbrella fund that invests in different microfinance funds, in bonds issued by microfinance companies, and – up to ten percent – in microfinance companies. Given that we invest a maximum of 3% in any individual microfinance institution, we have achieved a broad degree of diversification. Besides, we focus on a broad range of themes and regions.

Who is granted a microcredit?

Microcredit debtors are often start-up entrepreneurs who have no access to financial services, no collateral, and whose liability is often bundled with that of other debtors. Technically speaking, microcredits are corporate bonds with a very high payback ratio.

What is usually financed by micro-loans?

Typical examples of the financing micro-loans provide are the procurement of cattle or seeds in agriculture, the setting-up of a market stall, or the purchase of a sewing machine for a tailor's shop. Very often the money is also used to establish a small grocery or a tourism-related service.

ERSTE RESPONSIBLE MICROFINANCE received the “Österreichischer Dachfonds Award”, the Austrian Umbrella Fund Award in 2013.

Yes, our fund came out on top in the category “Hedge fund conservative, 3Y performance”. In addition, ERSTE RESPONSIBLE MICROFINANCE, just like all our sustainable funds, carries the European Transparency Logo, which is awarded for transparent investment principles. Such awards definitely help to increase interest for this investment category.

Why has this investment class been a niche market in spite of its stable yield?

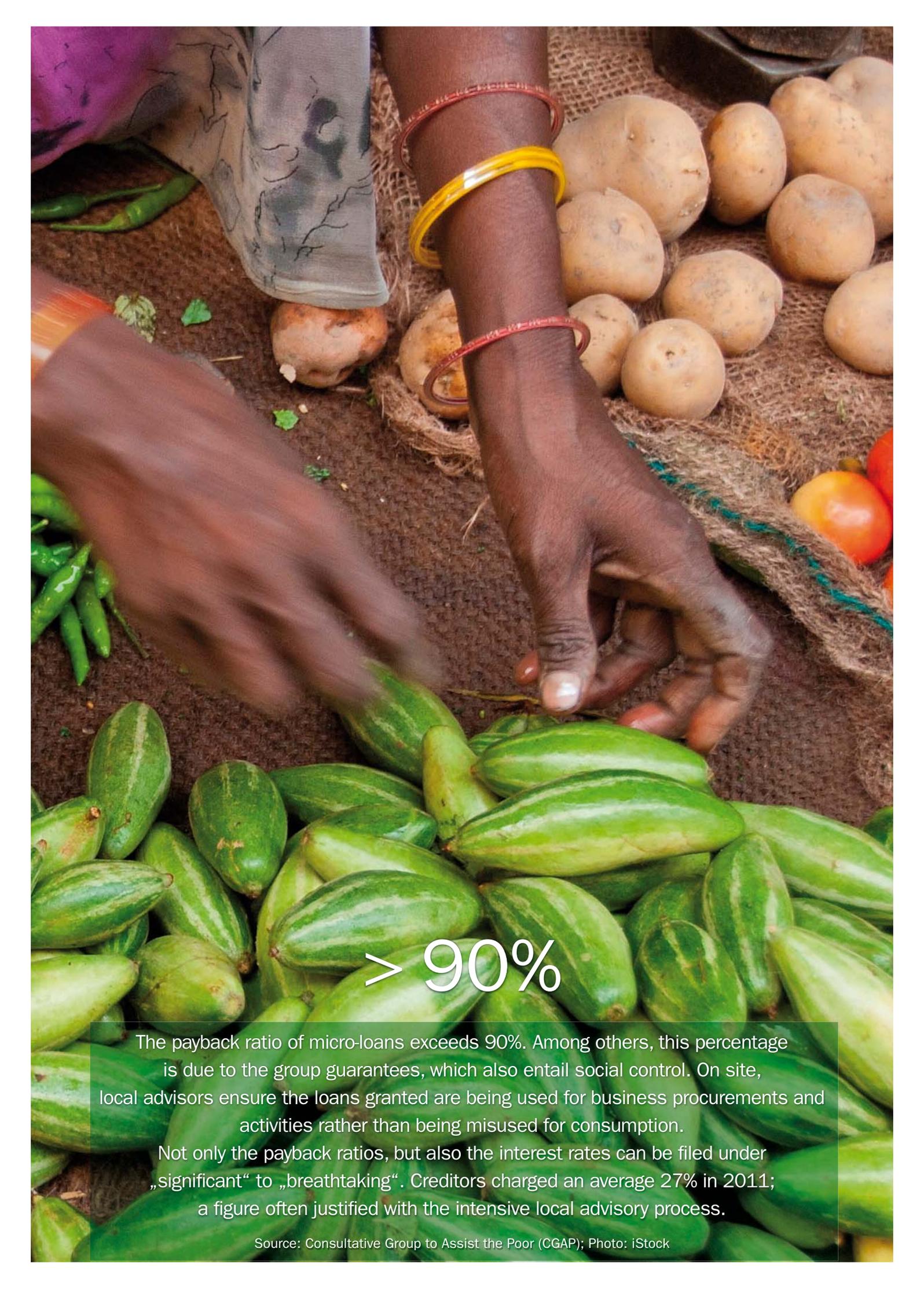
The Austrian legislator as well as its Financial Markets Authority define microfinance investments as so-called “alternative investment strategies”.** This means they are lumped together with hedge funds and similarly risky strategies and thus are unfortunately out of the question for some institutional investors.

This means the risk classification is too high?

This fund comes with a NAV, established on a monthly basis. This means that investors can buy and sell their investments every month. Our website provides them with continuously updated information about the fund as well as all relevant documents. It is our goal to constantly foster the interest in and transparency of this investment category.

* The fund was launched on 4 January 2010

** See the Austrian Alternative Investment Fund Management Act (Alternative Investmentfonds Manager-Gesetz – AIFMG)



> 90%

The payback ratio of micro-loans exceeds 90%. Among others, this percentage is due to the group guarantees, which also entail social control. On site, local advisors ensure the loans granted are being used for business procurements and activities rather than being misused for consumption.

Not only the payback ratios, but also the interest rates can be filed under „significant“ to „breathtaking“. Creditors charged an average 27% in 2011; a figure often justified with the intensive local advisory process.

Source: Consultative Group to Assist the Poor (CGAP); Photo: iStock

Company of the month: ACLEDA Bank Plc

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

ACLEDA was founded in 1993 as NGO to promote micro- and small companies in Cambodia. Seven years later the company received a limited banking licence from the Cambodian central bank with the support of international development organisations such as USAID, International Finance Corporation and United Nations Development Programme. In 2003 it was renamed to ACLEDA Bank Plc, and it started operations as merchant and commercial bank after receiving another licence from the central bank. The bank's growth is still largely generated by the provi-

ACLEDA might go
all the way from NGO
to listed company

sion of micro loans to micro-, small, and medium-sized enterprises. In addition, the bank also offers other banking services in Cambodia such as deposits, monetary transactions, documents business, and insurance services.

ACLEDA Bank Plc reported profits of USD 56.5mn for the first three quarters of fiscal 2013. With a headcount of more than 7,700, the company operates branch offices in Cambodia, Laos, and Myanmar, which makes it one of the largest providers of microfinance and other financial services in the region. In 2012, ACLEDA Bank Plc was the first Cambodian bank to receive a credit rating (B) from Standard & Poor's.



Photo: Acleda Bank Plc

In 2008 the bank expanded into Laos, where it currently operates 28 branch offices. Under the name ACLEDA Bank Lao Ltd. it offers its customers the same services as in Cambodia. In March 2013 the bank set up a subsidiary in Myanmar, viz. ACLEDA MFI Myanmar Co. Ltd. At the moment ACLEDA operates three branch offices in Myanmar, with business activities limited to microcredits and savings deposits.

As of the end of 2012, ACLEDA Bank Plc had some 209,000 active micro-loans with an average volume of 798 US-Dollars on its books. Slightly more than half of the loans were granted to women, who are gener-

ally considered extremely reliable debtors. In the long run the bank intends to float its shares on the stock exchange to support its ongoing expansion. ACLEDA Bank Plc is among the top-three positions of the ERSTE RESPONSIBLE MICROFINANCE fund.

Key figures for ACLEDA Bank Plc

Source: Bloomberg

Sector	regional banks
ISIN	not listed!
Share price	–
PE	–
Dividend yield	–

LASTING WORDS

All I want for Christmas is loan

Gerold Permoser, Chief Investment Officer (CIO) of Erste Asset Management, tells about *a moment of speechlessness*.

In his Nobel Prize acceptance speech, Mohamed Yunus talked about how speechless he was when he heard of the price some poor woman was prepared to pay for a loan of USD 1: she agreed to sell all the products she was going to manufacture to the creditor on

A Christmas wish: access to capital at reasonable conditions – for all people

his terms. In his book *The Ascent of Money*, Niall Ferguson tells a similar story about loan sharks in his hometown of Glasgow who give out loans carrying interest rates of more than 1 million percent to people who have no alternative.

Ferguson, a well-known conservative intellectual, and Yunus, a socially committed, helping pragmatic are two people who could not be any more different if they tried to. But in their specific ways, both are pointing at the same fact: people need access to capital,

and this access should happen at reasonable conditions and, closely related, in a legally secure environment.

In the years since the financial crisis, people have repeatedly pondered the connection between morals and the financial world. Very often the lack of any morals among the actors in the financial industry is cited as reason for the financial crisis. The fact that the general public has also had to pay for the “sins” of the financial system has been quoted in an attempt to substantiate the alleged lack of moral values.

At this point, I do not wish to claim that no mistakes were made prior to the financial crisis or that no moral failures happened. However, at the same time I find it useful to imagine a world without banks and where people are forced to source money in a legal void. Along those lines, it is particularly fulfilling to work at a microfinance product in the Advent season. Merry Christmas!



Responsible Investment Universe

Changes (excerpt)

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

+ INCLUDED

OCTOBER/NOVEMBER 2013

Johnson Controls Inc (sector: "Auto Parts & Equipment")

is one of the leading providers of batteries and automotive interior. In addition, the company also operates in the field of efficient HVAC (e.g. equipment, facility management systems) and offers services in connection with heating, air ventilation and conditioning, cooling, and safety systems.

- ⊕ Comprehensive measures and strategies to increase product safety
- ⊕ Stringent screening of suppliers with regard to their compliance with environmental, health, and safety standards
- ⊕ Extensive measures to increase upgradeability and recyclability of company products
- ⊕ **Exclusion criterion** "infringement with employment rights" has lapsed

Marks & Spencer Group PLC (sector "Department Stores")

is one of the largest retail chains in the United Kingdom. The company sells clothes, groceries, and household goods.

- ⊕ Extensive supply chain management in terms of compliance with employment rights and health and safety standards
- ⊕ Drastic cut in energy and water consumption in its stores in recent years
- ⊕ Keen efforts in animal welfare both in production and processing
- ⊕ **Exclusion criterion** "infringement with employment rights" has lapsed



-23%

Following the motto „Plan A - We don't think there is a plan B“, Marks & Spencer alerts the public to the scarceness of natural resources. The retail giant has reduced its CO² emissions by 23% since 2007 and has splashed out on emission rights. Thus M&S is doing carbon-neutral business both in the UK and Ireland.

Photo: Marks&Spencer

- EXCLUDED

Barclays Bank PLC (sector "Diversified Banks")

is one of the globally leading providers of financial products and services. Retail and corporate banking, credit card business, investment banking, and wealth management are the core business areas.

- ⊖ **Infringement with the exclusion criterion of "controversial business practices"**. As the result of an out-of-court settlement, the company has accepted to pay huge sums due to the LIBOR scandal, where from 2005 to 2009 the bank had been reporting tampered LIBOR rates.
- ⊖ Insufficient measures to ensure responsible sales practices
- ⊖ Lack of transparency with regard to the integration of social and environmental aspects in Asset Management

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	17.64	9.51	-4.90	16.61	29.66	-37.42	1.50	241.8	C+	C-	72.9 %	A, B
ERSTE RESPONSIBLE STOCK EUROPE	17.52	20.88	-23.03	9.40	27.01	-54.99	1.50	11.9	C+	C	49.4 %	A, B
ERSTE RESPONSIBLE STOCK AUSTRIA	8.77	29.19	-38.75	16.63	36.08	-56.62	1.50	10.5				A, C, D
ERSTE RESPONSIBLE STOCK EUROPE EMERGING	1.77	24.99	-31.51	16.65	55.19	**	1.80	12.6				A, B, D
ERSTE RESPONSIBLE STOCK AMERICA*	25.59	11.45	-10.62	16.13	24.92	-42.27	1.80	49.5*				A, B
ERSTE WWF STOCK CLIMATE CHANGE	59.25	-7.35	-25.66	3.19	21.37	-45.82	1.50	11.6				A
ERSTE WWF STOCK UMWELT	36.31	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 29 November 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).

The EAM-specific ESG rating scrutinises exclusively those companies that have already been given a rating by rating agencies that cooperate with EAM (about half of the 2,200 companies in the investment universe). In evaluating ESG criteria, Erste Asset Management takes a very stringent approach, which leads to a situation where the majority of the about 1,150 rated companies receive ESG ratings of C- to C+. Only very few companies have achieved our current top rating of B+. One sixth of the scrutinised companies have received the weakest rating of D and are therefore not investable for the ERSTE-RESPONSIBLE funds. Also, we only invest in companies that have been rated by the rating agencies cooperating with EAM.

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 **	0.47	5.33	0.60	2.21	10.99	-2.91	0.24	83.8			-
ERSTE RESPONSIBLE BOND	1.09	10.57	0.94	1.72	9.07	4.51	0.60	139.9	B- C-	74.1 %	a)
ERSTE RESPONSIBLE BOND EURO-CORPORATE	2.11	12.89	*				0.60	131.9	C+ C-	74.4 %	-
ERSTE RESPONSIBLE BALANCED	2.10	*					1.20	5.8			b)

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 29 November 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 ²⁾
ERSTE RESPONSIBLE MICROFINANCE	2.33	3.20	2.48	0.79			1.00	25.5	x)

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

The EAM-specific ESG rating scrutinises exclusively those companies that have already been given a rating by rating agencies that cooperate with EAM (about half of the 2,200 companies in the investment universe). In evaluating ESG criteria, Erste Asset Management takes a very stringent approach, which leads to a situation where the majority of the about 1,150 rated companies receive ESG ratings of C- to C+. Only very few companies have achieved our current top rating of B+. One sixth of the scrutinised companies have received the weakest rating of D and are therefore not investable for the ERSTE-RESPONSIBLE funds. Also, we only invest in companies that have been rated by the rating agencies cooperating with EAM.



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



ERSTE RESPONSIBLE STOCK GLOBAL
ERSTE RESPONSIBLE STOCK EUROPE
ERSTE RESPONSIBLE BOND
ERSTE RESPONSIBLE BOND EURO-CORPORATE

Our long-term partners in sustainability



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This document serves as additional information for our investors and is based on the knowledge of the staff responsible for preparing it at the time of preparation. Our analyses and conclusions are general in nature and do not take into account the individual needs of our investors in terms of earnings, taxation and risk appetite. Past performance is not a reliable indicator of the future performance of a fund. Please note that investments in securities entail risks in addition to the opportunities presented here. The value of shares and their earnings can rise and fall. Changes in exchange rates can also have a positive or negative effect on the value of an investment. For this reason, you may receive less than your originally invested amount when you redeem your shares. Persons who are interested in purchasing shares in investment funds are advised to read the current fund prospectus(es), especially the risk notices it or they contain, before making an investment decision.

Please consult the corresponding information in the prospectus for restrictions on the sale of fund shares to American citizens. Misprints and errors excepted.