

RESPONSIBLE RETURN

INVESTMENT BOARD
Healthcare provision –
a basic need not always met

ENGAGEMENT
Access to Medicine

COMPANY OF THE MONTH
GlaxoSmithKline PLC

PIN IT DOWN
Bitter pills & healthy capitalists?



Editorial



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

When we wish each other a Happy New Year – as was the case just a few days ago – then the topic of health will almost always be at the forefront of our minds. As human beings, being healthy and staying healthy is accorded a high priority. The necessary healthcare provision is good to very good in large parts of Europe, despite the fact that even in these countries a debate about a „two-tier society in medical care“ keeps emerging from time to time.

In the developing countries, however, access to medicine does not go without saying. Consequently, four of the United Nations' eight Millennium Development Goals concern an improvement in healthcare standards for the world's poorest regions. The sixth Millennium Development Goal deals with the fight against HIV/AIDS, malaria and other serious diseases. For pharmaceuticals groups, access to medicine is a multi-dimensional challenge. While the developing countries, in particular, constitute a market with huge potential, medicine is often unaffordable for the majority of their populations.

The pharmaceuticals sector is now being closely scrutinised regarding this issue of access to medicine, and individual companies are being analysed in detail. In order to be able to do well in the rankings, companies can score for example with discounts, concessions on patent rights or with research programmes for currently neglected diseases. The improvements made in recent years give cause for optimism.

Sincerely

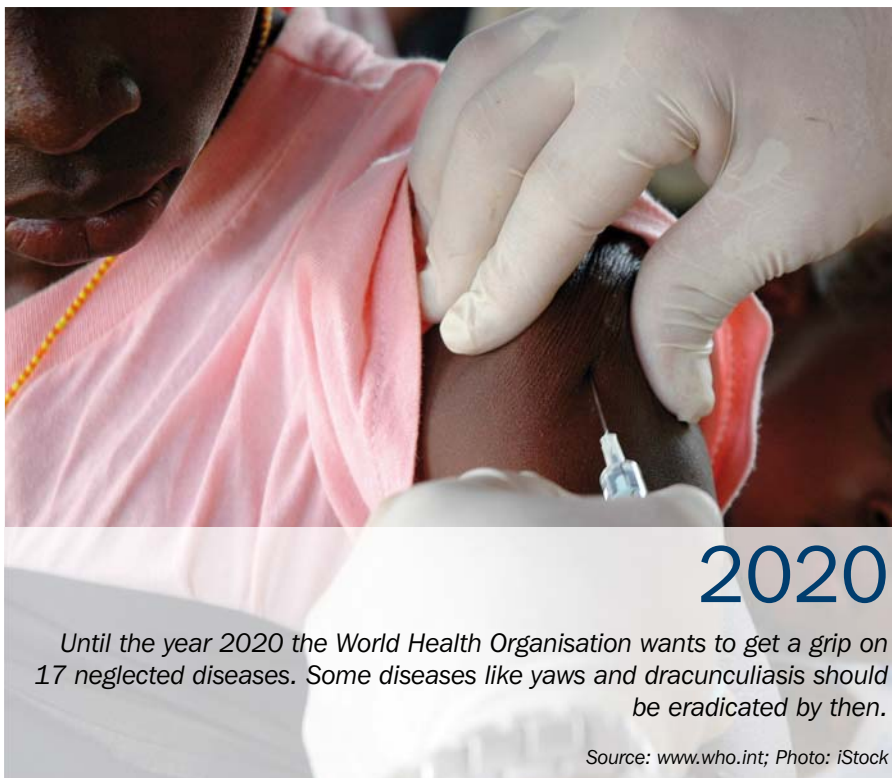
A handwritten signature in black ink, appearing to read 'Wolfgang Pinner', written in a cursive style.

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.

Healthcare provision – a basic need that is not always accessible



Outside the industrialised countries, access to suitable healthcare is cumbersome for many people. Various international initiatives are therefore attempting to improve the access

Access to medicine: chance and risk for the pharma sector

to medicine in the world's poorest countries. Both the Millennium Development Goals of the United Nations dating from 2001 and the Doha Agreement from the same year each constitute a major step forward. They relativise the TRIPS Agreement (provisions on intellectual property rights,

trademark and patents) in that member states are no longer to be prevented from tackling crises in the public healthcare sector: for example, in the fight against HIV/AIDS in sub-Saharan Africa.

The availability and affordability of medicine as well as acceptance and health consciousness of patients all constitute major aspects of the access to medicine issue. For the pharmaceuticals groups, the access to medicine issue constitutes both an opportunity and a risk. The research costs for the development of new active ingredients, patents and the approval of medicine in the individual countries contrast with the market

potential offered by other medicines. Although the above-mentioned Doha Agreement has strengthened the position of the developing nations, the details during cooperation often lead to protracted negotiations between governments and multinational groups. For the countries concerned, developing nations that are increasingly emancipating themselves, this is not about development aid. They aim to become partners for the pharmaceuticals groups in their own right and offer favourable locations for research and development in addition to patient proximity.

Consequently, donations and philanthropy occupy an insignificant place in a critical evaluation of the individual pharmaceuticals companies in terms of access to medicine. More important are the organisation and management of the programmes themselves (for example, relating to nationwide supply at lower prices) as well as the associated stakeholder contacts to politics, competitors and consumers. The true focus of the evaluation is, however, on the areas of R&D, price policy, sales channels and patents and licenses.

„Access to medicine“ status:

For the EAM Sustainability Research in the pharmaceuticals field, access to medicine plays an important role. This refers, in particular, to the social dimension of the EAM Responsible Rating. For the stakeholder evaluation of companies in the pharmaceuticals sector, the importance of „access to medicine“ amounts to 10%.



50 x

The treatment of a HIV-infection with name brand drugs is 50 times more expensive than therapy with an Indian generic drug. The difference between 200 and 10.000 US-Dollar for annual therapy can save lives.

Source: www.geo.de; Photo: 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.

Focus on Access to Medicine

The Access to Medicine Index evaluates the world's leading pharmaceuticals companies with regard to access to health care they provide. The index analyses the strategies, anti-corruption measures, research & development, pricing & marketing, patents, structural support measures and philanthropic initiatives adopted by companies. It is recalculated every two years.

Enormous holes gape in the medical supply chains

Swiss pharmaceuticals group Roche currently ranks 10th out of 20 on the index and has dropped four places since the last calculation.

Roche has, however, been actively seeking to improve access to medicine. Asked about the patent law issue, the group does not consider this to be the biggest problem in supplying the world's poorest countries with medicines. Roche regards the lack of a suitable infrastructure, such as medical personnel and hospitals, as a more serious issue. The company also says that patients often lack awareness of actually being ill and are unwilling to accept medical assistance.

From Roche's point of view the pharmaceuticals sector's initiatives measured by the index are triggered less by the TRIPS and Doha Agreements than by the desire to establish markets for medicines in the longer term – for the benefit of producers and patients alike.



The pharmaceuticals industry is generally accused of generating big margins and incurring high marketing costs in contrast to the rather low level of R&D spending in the development of new medicines. But Roche does not accept this argument and refers to the necessary spending on diagnosis quality programmes, training of doctors and aid staff as well as awareness campaigns.

AIDS medicines at a price below that of generic drugs

In the HIV/AIDS segment, Roche produces tests and second-line products (In-virase® and Viracept®). In LICs (low-income countries) and LDCs (least developed countries), the tests are sold at a substantially lower price; in these countries the company cooperates with the Clinton Foundation and UNICEF. AIDS medicine is sold at no profit: i.e. at prices below the level of generics.

With regard to its drop in the ranking of the Access to Medicine Index, Roche argues that the company's efforts in the areas of oncology, influenza and hepatitis are insufficiently taken into account in the index – which focuses on other diseases and conditions. Moreover, the company is trying to improve the medical infrastructure rather than supporting donation programmes for medicines, which is not reflected in the evaluation.

Roche is in contact with EAM's sustainability specialists with regard to the „access to medicine“ issue. The aim of the Engagement process is to help Roche improve its ranking in the 2014 Access to Medicine Index.

Status Roche: among the top 20 holdings in ERSTE RESPONSIBLE STOCK GLOBAL and ERSTE RESPONSIBLE STOCK EUROPE, ongoing dialogue



74.800 tons

In 2011 the Austrians brought about 74.800 tons of electrical waste to collection points. By taking back used electronics, companies such as Teradata increasingly commit themselves to recycling.

Source: www.ufh.at

Changes in the investment universe, January 2013

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



INCLUDED

Teradata Corp

(sector: IT consulting & other services) is one of the world's largest providers of solutions in the database and business analytics field.

- ⊕ Steady reduction of energy consumption for cooling and heating of office buildings and data centres and increased use of cloud and virtualisation technology
- ⊕ 45% reduction in greenhouse gas emissions by 2014 (basis 2008)
- ⊕ Product research and development with a focus on energy efficiency
- ⊕ Extensive commitment to data protection and strict measures to implement the requirements, ISO/IEC 27001 certification of the information security management system
- ⊕ Launch of the "Used Equipment Program" to take back used hardware from the end-user

Sappi Ltd

(sector: paper products) is a company in the paper and pulp industry with global operations. The company produces paper, pulp, wood and timber products.

- ⊕ Most production sites are equipped with environmental management systems certified in accordance with ISO 14001
- ⊕ More than 80% of the forests owned by the company are certified in accordance with Forestry Stewardship Council (FSC) guidelines
- ⊕ Extensive code of conduct with a special focus on fair business practices
- ⊕ Measures to increase the quota of women in managerial positions would be desirable
- ⊕ Signatory of the UN Global Compact in 2008, no progress reports on this issue since 2011



EXCLUDED

Telstra Corp Ltd

(sector: integrated telecommunications services) is the leading provider of telecommunications services in Australia. The company provides fixed network and mobile telephony, internet access, TV and associated services.

- ⊖ Underdeveloped supply chain management with low minimum standards in the areas of social responsibility and protection of the environment
- ⊖ Media reports in June 2012 according to which the company's sole supplier in the fixed network business violated labour rights at its Chinese production sites; Telstra Corp Ltd. suspended sales of these products for a week and then considered the matter closed
- ⊖ Repeated accusations by the Australian Privacy Commission and Australian Communications and Media Authority for violations of data protection provisions
- ⊖ Outside of Australia, attempts at digital integration are minimal

Company of the month: GlaxoSmithKline PLC

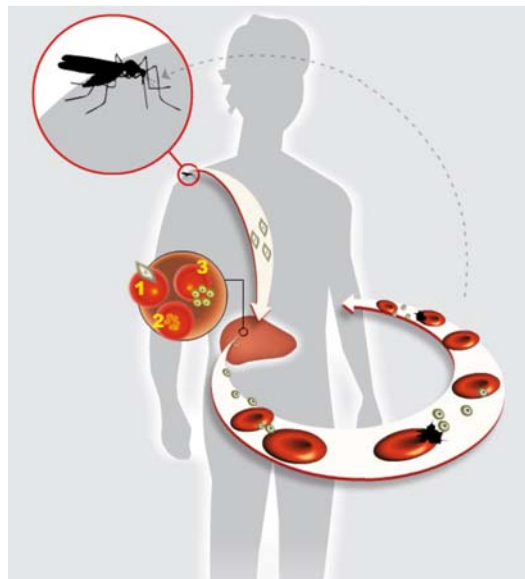
GlaxoSmithKline („Glaxo“), one of the world’s largest pharmaceuticals groups, produces pharmaceuticals and vaccines along with healthcare and hygiene products. In the SRI Universe of Erste Asset Management, the group numbers among the top pharmaceuticals companies. Since the introduction of the Access to Medicine Index (2008), Glaxo has consistently ranked first among the 20 largest global pharmaceuticals groups. The key topics within this sector are access to medicine, product quality and safety, ethical marketing and business practices.

Access to medicine and vaccines in the developing countries.

Here, Glaxo focuses in particular on improving the affordability, availability and research and development of medicines and vaccines. In the least developed countries, the price for medicines to combat malaria, diabetes and asthma is restricted to 25% of the product price charged in the UK if Glaxo is the sole local provider. With the support of NGOs, 20% of the income thus generated is reinvested in structurally weak countries in order to expand the local healthcare infrastructure. In countries with average incomes, parameters such as income, order size and contract length are used in the negotiations with the relevant government to determine prices. New medicines and vaccines to treat rare tropical diseases are researched not only internally but also through public-private partnerships.

Product quality and safety.

Glaxo follows the guidelines of Good Manufacturing Practice and commits its suppliers to adhere to the Third Party Code of Conduct. Nevertheless, in 2011 the Food and Drug Adminis-



The Malaria cycle

With the bite of an infected Mosquito, an infective form called sporozoite attacks the red blood cells.

Fever occurs, inhibiting the blood supply of vital organs. The infected person will now transmit the disease to the mosquito biting her/him.

Source: <http://www.gsk.com>

tration (FDA) sent a warning letter to the company after two contaminated product samples were found at its plant in Worthing (UK). The problem has since been resolved.

Marketing and business practices.

The company has established a code with ethical behaviour standards for its employees while, at the same time, defining an Employee Guide to Business Conduct. Nevertheless, Glaxo

was sentenced to a record fine of USD 3 billion in July 2012 due to misleading marketing and the failure to point out the side-effects of several medicines (Paxil, Welbutrin, Avandia) during the period from 1998 to 2007. Moreover, the company is alleged to have used various incentive systems in the attempt to persuade physicians to prescribe Glaxo products. The EAM engagement process focuses on improving the internal and external control mechanisms.

GlaxoSmithKline employs a workforce of more than 97,000 worldwide. With sales of more than EUR 32 billion, it ranks in seventh place among the world’s largest pharmaceuticals groups. Alongside its main business of Pharmaceuticals (67%), the company comprises the Vaccines (18%) and Consumer Healthcare (15%) businesses. The focus in the Pharmaceuticals business is on conditions and diseases such as asthma, HIV/Aids, malaria, depression, migraine, diabetes and cancer and in the Vaccines business on hepatitis, diphtheria, tetanus, typhoid and flu. In the Consumer Healthcare business, the company’s best-known products include Odol, Sensodyne, Dr. Best, Paradontax and Chlorhexamed, Zovirax, Panadol and Cetebe.

Key Figures of GlaxoSmithKline

Sector	Pharmaceuticals
ISIN	GB0009252882
Share price (11.01.2013)	1382.50 GBp
Estimated P/E (11.01.2013)	12.33
Dividend yield	5.87%

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	2012	2011	2010	2009	2008	2007	Mgmt. fee	Volume in mn.	Risk notes ¹⁾
ERSTE RESPONSIBLE STOCK GLOBAL	9.51	-4.90	16.61	29.66	-37.42	5.73	1.50	188.3	A, B
ERSTE RESPONSIBLE STOCK EUROPE	20.88	-23.03	9.40	27.01	-54.99	5.02	1.50	9.3	A, B
ERSTE RESPONSIBLE STOCK AUSTRIA	29.19	-38.75	16.63	36.08	-56.62	2.73	1.50	7.1	A, C, D
ERSTE RESPONSIBLE STOCK EUROPE EMERGING	24.99	-31.51	16.65	55.19	*		1.80	11.8	A, B, D
ERSTE WWF STOCK CLIMATE CHANGE	-7.35	-25.66	3.19	21.37	-45.82	*	1.50	7.7	A
ERSTE WWF STOCK UMWELT	5.67	-23.39	14.25	17.84	-48.02	25.77	1.50	38.3	A

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 31 December 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 ERSTE RESPONSIBLE STOCK GLOBAL, ERSTE RESPONSIBLE STOCK EUROPE, ERSTE RESPONSIBLE STOCK AUSTRIA, ERSTE RESPONSIBLE STOCK EUROPE EMERGING, 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, and ERSTE RESPONSIBLE 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 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).
- * Fund inception during the fiscal year

Bond funds, mixed funds

All funds are denominated in Euro.

Fund name	2012	2011	2010	2009	2008	2007	Mgmt. fee	Volume in mn.	Risk notes ²⁾
ERSTE RESPONSIBLE LIQUID	5.33	0.60	2.21	10.99	-2.91	2.93	0.24	40.1	-
ERSTE RESPONSIBLE BOND	10.57	0.94	1.72	9.07	4.51	0.51	0.60	146.5	a)
ERSTE RESPONSIBLE BOND EURO-CORPORATE	12.89	*					0.60	110.0	-
ERSTE RESPONSIBLE BALANCED	*						1.20	2.1	b)

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 31 December 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 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).
- * Fund inception during the fiscal year

Microfinance funds

All funds are denominated in Euro.

Fund name	2012	2011	2010	2009	2008	2007	Mgmt. fee	Volume in mn.	Risk notes ³⁾
ERSTE RESPONSIBLE MICROFINANCE	2.74	2.49	0.79				1.00	24.3	x)

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

Renaming of Funds

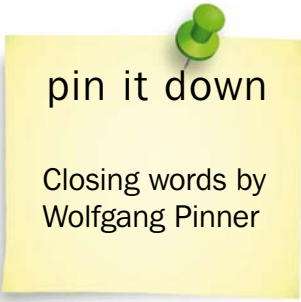
New Name as of 30.11.2012

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

Former 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

On 30 November 2012, all ESPA VINIS funds were rebranded to ERSTE RESPONSIBLE funds. The fund names of the WWF product family remained the same, while the prefix ESPA changed to ERSTE. The profile of all sustainable funds remained completely unchanged.




pin it down

Closing words by
Wolfgang Pinner

Bitter pills & healthy capitalists?

*The higher the health expenses, the healthier we are?“,
Wolfgang Pinner wonders*



Medicine is costing us more and more money. And if, when all is said and done, it doesn't help us, it may even cost us our lives! The fact that the fountain of youth is, unfortunately, yet to be discovered and that humankind is frantically attempting to keep death a taboo subject while at the same time increasing life expectancy, provides the very best conditions for a prospering pharmaceuticals industry. Demographic trends in the industrialised nations are also playing into the hands of Pfizer & Co.

However, some resistance to the hegemony of the pharmaceutical giants is forming. Epidemics and contagious diseases have brought countries in sub-Saharan Africa, in particular, to an impasse. There seems, in some cases, no way out of the social and economic paralysis. Governments, strengthened by international initiatives, are therefore increasingly agreeing with the pharmaceutical companies on „development cooperation“ – essentially, market access in return for reduced costs.

On the other hand, there are also countries that – albeit less needy – are not too fussy about patent protection. The accusations often levelled at China and its plagiarisms in the industrial sector apply to the pirated

drugs coming from India in the medical field. The list of pharmaceuticals groups with patent law issues in India has by now become a long one. But is it legitimate to violate laws because health has to rate above filthy lucre? We must not forget the costs associated with the development of new medicines. Pharmaceutical groups worldwide are confronted with the costly test phases required by national healthcare authorities. In order to cut costs, they therefore often take the bull by the horns and establish new, bigger corporate units. Hence, the Pac Man game dynamic continues to prevail in the pharmaceuticals sector. If the prey ultimately proves indigestible, the problem can, after all, no doubt be treated by means of drugs.

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.

13 %

of European women abuse tranquilizing drugs. The number of men abusing tranquilizers “only” amounts to about 8 %.

Source: www.unodc.org, World Drug Report 2012, p. 14; Photo: iStock

Our long-term partners in sustainability



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