

ERSTE

The ESG Letter

on Environmental, Social and Governance issues

Nr 1/2015

RESPONSIBLE RETURN

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Through the jungle of
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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 Tower of Babel

It is one of the best-known stories from the Bible: Man wants to see eye to eye with God and starts building a tower towards heaven; and God punishes man's hubris with Babylonian confusion. Bereft of a common language, mankind fails to finish the tower.

The race for the highest building in the world shows that man has learnt little. Tower and hubris still seem to come in tandem. And at least in those properties that want to be sustainable, the Babylonian confusion has survived in the shape of the certification chaos.

What makes properties sustainable? Is it more sustainable to live in a badly insulated building dating from the turn of the 19th century, given that a new construction would cause a bigger environmental burden than the existing energy costs? Does it make sense to invest in insulation if the material ends up as toxic waste down the line? Are triple-glazed windows the solution even if they are more likely to cause mould due to their unfavourable ventilation characteristics?

And how does one measure the sustainability of a building in the first place, given that the term itself is hazy? Numerous ratings and certificates claim to prove the sustainability of a property. But what do Energy Performance Certificates et al. really measure? And how do such certificates relate to each other? Do they measure the same parameters, or is there a point in combining them?

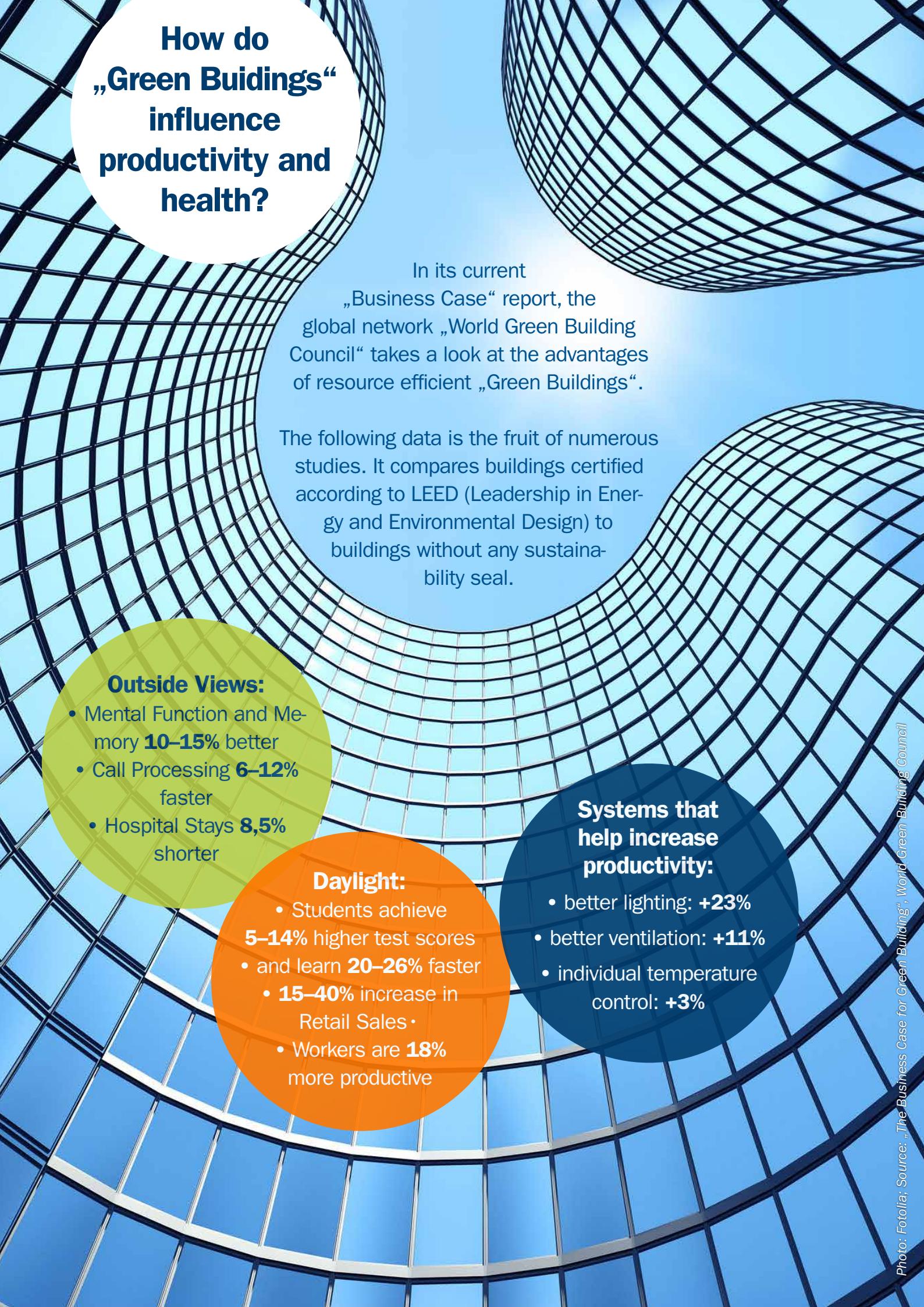
Property has been one of the most interesting asset classes in Germany, Austria, and Switzerland in the past years both in terms of return and demand, coining the German idiom "Betongold" ("concrete gold"). Sustainable investors were largely excluded, which is one reason why we decided to have a closer look at the terra incognita of sustainable property. We would like to invite you, Ladies and Gentlemen, to join us on this expedition. Maybe we can contribute a little to do away with the Babylonian confusion, paving the way for the construction of a sustainable property portfolio.

Sincerely

A handwritten signature in black ink, appearing to read "Gerold Permoser".

Gerold Permoser

Chief Investment Officer (CIO), Chief Sustainable Investment Officer (CSIO)



How do „Green Buildings“ influence productivity and health?

In its current „Business Case“ report, the global network „World Green Building Council“ takes a look at the advantages of resource efficient „Green Buildings“.

The following data is the fruit of numerous studies. It compares buildings certified according to LEED (Leadership in Energy and Environmental Design) to buildings without any sustainability seal.

Outside Views:

- Mental Function and Memory **10–15%** better
- Call Processing **6–12%** faster
- Hospital Stays **8,5%** shorter

Daylight:

- Students achieve **5–14%** higher test scores
- and learn **20–26%** faster
- **15–40%** increase in Retail Sales
- Workers are **18%** more productive

Systems that help increase productivity:

- better lighting: **+23%**
- better ventilation: **+11%**
- individual temperature control: **+3%**

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.

Investment Board: Through the jungle of building certificates

The development and construction of sustainable buildings are flourishing. While according to a "Green Building" study, sustainability criteria were being taken into account only in 28% of the planned construction projects in 2012, a survey taken among architects and construction engineers suggests that this percentage will rise to 60% by the end of 2015.* The positive trend has also manifested in the multitude of sustainable construction certificates: the so-called "Green Building Labels" are becoming increasingly popular.

The majority of the certificates available are restricted to individual countries. Only a few labels transcend national borders or are truly international. Cross-border certificates are usually more superficial and often facilitate a more straightforward basic certification. Country-specific certificates, on the other hand, take into account detailed statutory and geographic requirements. For example, a South African label will put stricter emphasis on water consumption than a Norwegian certificate, which in turn will be very concerned with the insulation of buildings. Most of the sustain-

able construction certificates show similar basic concepts and differ only in certain areas or in extent.

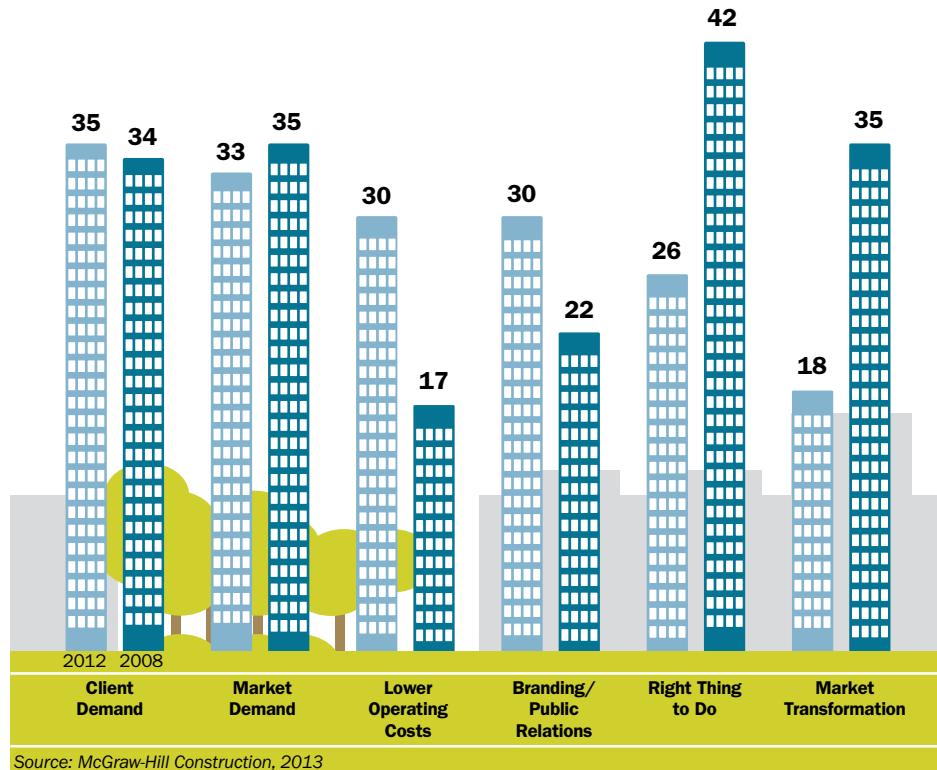
The internationally known labels such as LEED, BREEAM, DGNB, etc. are assessed positively by all members of the Erste Asset Management investment board. At the same time, the board members point out that it takes more than compliance with the minimum criteria of various labels for a building to be "sustainable". But many operators, having earned their

label, are quite content with that achievement. The board criticises in particular the fact that certificates focus largely on ecological and energy efficiency criteria. Further aspects such as the overall sense of a construction project or the effects during construction and operation have so far not really been taken into consideration. [Richard Boulanger]

*World Green Building Trends 2013 Smart Market Report

Top Triggers Driving Growth of Green Building Around the World

According to Respondents Over Time, in percent



Status: The certification of sustainable buildings enters Erste Asset Management's ESG company rating in an indirect fashion only, since at this point we regard the available labels as insufficiently comprehensive and meaningful (see above). Through their superior energy and water efficiency values, labels tend to have a positive effect on the respective ESG company rating.

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 – the foundation of sustainable property

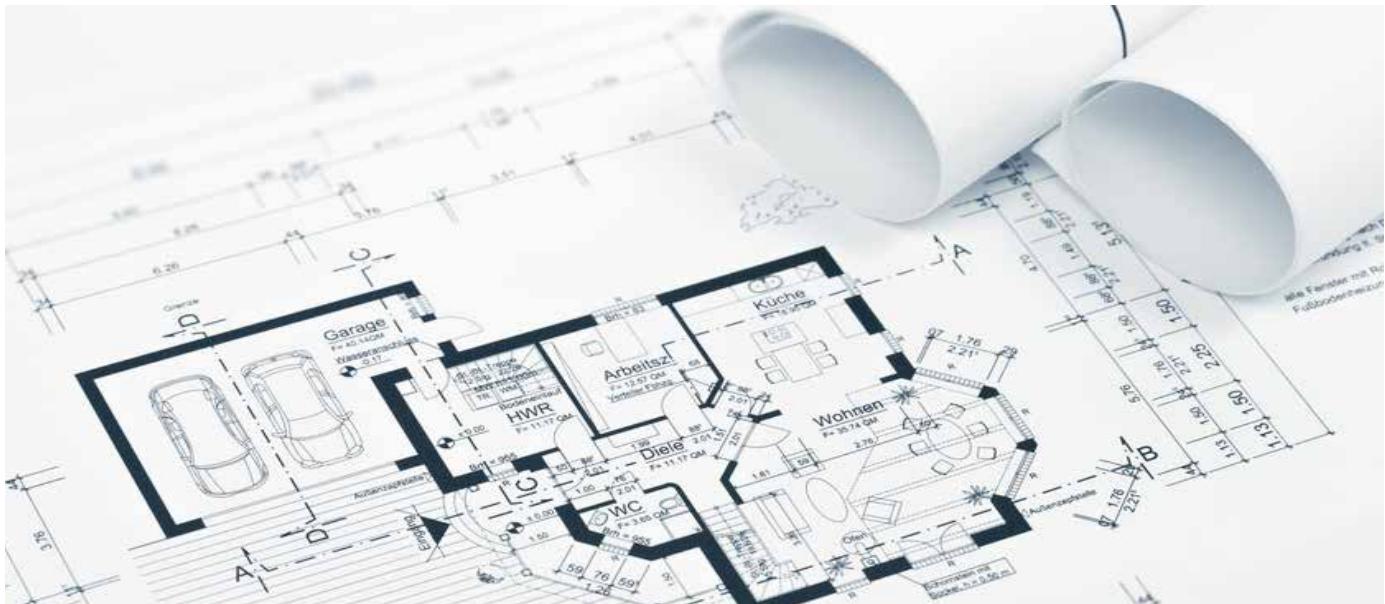


Photo: Fotolia

The sustainability of a building depends on many factors such as purpose, location, energy and water efficiency, type of construction, use etc. But since the property itself tends to be the focal point of discussion, for its engagement activities Erste Asset Management contacted companies in the construction and building materials industry. These play an important part concerning the sustainability of property.

EAM sent its questions about sustainable building to seven companies. Hochtief AG, Steico SE, and Bauer AG gave detailed responses, whereas Wienerberger, Heidelberg Zement, and Geberit did not respond at all, or did so only with a time lag. Due to technical difficulties, we could not evaluate the feedback from Zehnder.

Operating in areas from civil engineering to the production of insulation

material, the companies polled cover the entire construction process of a building. Basically all companies welcome progress towards sustainability and cite statutory requirements, rising customer demand, and certificates as important drivers. According to Hochtief there has been an increase in the proof required for sustainable construction practice even in the phase of prequalification and tendering.

In order to comply with the ever increasing requirements, the surveyed companies invest substantial amounts in research and development (R&D) of products and services. A research report of our partner MSCI ESG illustrates that the producers of building materials with a higher degree of innovation in the area of cleantech products* generate higher rates of return in the long run and earn on average more than twice the earnings per share. Higher

R&D spending may often result in higher product prices, but, as Steico points out, the market for innovative and high-quality products has been growing. Our survey also indicates that not only energy efficiency and water consumption play a key role, but living comfort, product durability, and the carbon footprint (see [ERSTE RESPONSIBLE RETURN – The ESG-Letter on issues around CO₂](#)) have become more important recently. [Richard Boulanger]

Status: Over the next years, sustainability is certain to gain relevance in the construction industry, which will lead Erste Asset Management to continue its talks with property companies. One of the most frequent problems in the construction industry is corruption – which causes an exclusion from EAM's Responsible Investment Universe.

Company of the month: Steico SE

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

18 Centimetres are the measure of all things in supposedly sustainable construction: the thickness of the Styrofoam insulation in which environmentally aware homeowners currently wrap their house. While furthering the cause of energy efficiency, this form of insulation represents a skin of warming yet biologically dubious toxic waste. Mould, hazardous to health, is only one of many potential consequences. In the worst case, the highly flammable polystyrene may cause the entire house to burn down.

More and more players in the market prove that energy-efficient building does not necessarily mean making this kind of compromise. Our company of the month, the German Steico group, is testament to this fact.

On the back of well-targeted R&D, Steico has developed from a producer of wood wool insulation to a provider of one of the widest ranges of ecological building materials. Demand for such solutions has experienced a drastic increase.

EAM invests in **Steico SE** through ERSTE WWF STOCK CLIMATE CHANGE and has been in dialogue with the company when writing this edition of ERSTE RESPONSIBLE RETURN –The ESG Letter.

Key figures for Steico SE

Source: Bloomberg

Sector	Building Products
ISIN	DE000A0LR936
Share price (Mar. 31 2015)	7.611 EUR
Estimated PE	14.53
Dividend yield	1.92%

Being a medium-sized company, Steico has not introduced as detailed an environmental management system as many larger competitors.

Still, the firm resorts to ecological cycles in its processes and procedures across its factories: water is recycled in closed systems, and wood waste is used to produce energy within in-house biomass power plants.

Thanks to production sites in France and Poland, the work standards for the staff are comparably high as well. This ensures that Steico's production processes are not only compliant with ecological, but also with social standards.

Sustainable building cannot be reduced to a figure on an energy certificate. By using sustainable material, Steico goes beyond this approach and thus acts as trailblazer. [Dominik Benedikt]

While insulation materials such as rigid foam board constitute an impenetrable blockage, wood shavings allow the building to breath. The result is an improved indoor climate, for which customers are willing to pay a premium. Bearing in mind the risk of renovation due to mould or algae, the initially cheaper option may produce higher costs in the medium to long term.

Steico's approach to counter concrete and plastic with solutions made from wood also makes ecological sense. The use of sustainable commodities saves vast amounts of energy and CO₂ even during the production phase in comparison with the other materials. In addition, Steico is the first company in its sector to use exclusively FSC-certified wood from sustainable forests.

Steico SE is a German producer of sustainable building materials.

At a headcount of about 900, the company generated sales of almost EUR 160mn in 2013.



LASTING WORDS

The day Heaven wept

“I owe my wife numerous unforgettable moments.“, says Gerold Permoser, Chief Investment Officer (CIO) and Chief Sustainable Investment Officer (CSIO) of Erste Asset Management.



Photo: Julio Fisaro Mourão

Many of them were planned by her, and most of them we can even tell our grandchildren. The one moment I am about to tell you now was not only unplanned, but very nearly defied description.

On 8 July 2014 we visited the favela Vidigal, nestled into the mountainside of Morro Dois Irmãos in order to enjoy a magical moment with the best view of the beaches of Rio: the semi-finale Brazil against Germany. And magical it was – but not the way we had expected. Prior to the game a thunderstorm came down on us and the city and created the most beautiful light situation that I had ever seen in Rio. And a few minutes on we all experienced the “surprise” the football gods held for us – and knew why Heaven had wept.

The location where we experienced this moment was breathtaking in its

own way. Vidigal is a large slum outside Rio and, up to its pacification in 2011, was under the control of a drug gang. Drug dealing, violence, the absence of enforceable statutory rights and claims, and overall insecurity dominated the daily routine of the inhabitants. To me it was impressive to gain an insight into this parallel universe of hundreds of thousands of people for the first time.

Of course you wonder why so many people willingly submit themselves to such a form of dictatorship, because favelas are no gated living spaces. Nobody forces people to live there. The reason is simple: property. In the favelas people find houses to live in – and much-needed shelter.

The thing that has stuck with me is the impression that in our analyses of

property from a sustainable perspective we focus too much on the environmental aspect (“E”) of ESG. Property and housing always also come with a social (“S”) and a governance (“G”) component, as echoed by terms like social housing, gentrification, corruption in the construction industry, black labour, and many more. All of this is tied to the place you live at and ultimately to property.

The 8 July will remain unforgettable for Brazilians and for me. Along with the memory of the great view and the incredible game, I have taken home the realisation that housing cannot be devised independently of an ESG perspective. I therefore hope that as sustainable investors we can soon contribute to a situation where more capital is funnelled into sustainable property.

Responsible Investment Universe

Changes (excerpt)

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

ADMITTED

DECEMBER 2014 – MARCH 2015

- Sappi Ltd** (sector: Paper Products) is among the world's leading producers of cellulose and coated papers that are used as basis for the production of viscose rayon for the textile industry, pharmaceuticals, consumer goods, forms, and packaging.
- (+) Ratification of UN Global Impact in 2008*
 - (+) All Sappi Forests in South Africa fully FSC-certified
 - (+) 70% of the cellulose bought from external sources is certified according to FSC or PEFC
 - (+) Almost all production facilities are certified for their environmental, quality, as well as health and safety management system in accordance with ISO or OHSAS
 - (-) Lack of information with regard to adequate measures taken to avoid hardships after redundancy waves

The WhiteWave Foods Co (sector: Packaged Foods & Meats) produces and sells plant-based food and beverages, milk, and produce from organic farming. Among the best-known brands in Europe are Alpro and Provamel.

- (+) Products from organic farming account for a large percentage of sales
- (+) Measures aimed at the measuring and reducing CO₂ emissions across the entire production process by introducing life cycle analyses for some products
- (+) Increased water efficiency in the production process, strategy for further cuts announced
- (-) Low level of effort concerning production safety and quality
- (-) No information with regard to the use of a health and safety management system

Photo: iStock

> 1,835,924,715 l



Based on dairy, soy and nuts, WhiteWave's product portfolio heavily draws on water. In order to improve its ecological footprint, the company focuses on water recycling.

In the US, the WhiteWave-brand Silk balances its entire water consumption by the means of certificates. This investment helps to preserve the Colorado river. Thanks to WhiteWave's initiative, more than 1.835.924.715 litres of water have been pumped into dewatered ecosystems.

EXCLUDED

Petroleo Brasileiro S.A. (sector: Integrated Oil & Gas) is a globally operating, integrated oil and gas company. The business areas include the entire value chain from exploration to production, refining, and petrochemicals.

- (-) Infringement with the exclusion criterion of corruption according to the investigation of the Brazilian and the US authorities with respect to kickback payments and accusations of money laundering
- (-) High risk of work-related accidents job especially in exploration and production; repeated reports of fatalities
- (-) High risk of environmental damage in spite of comprehensive strategy against such damage in exploration, production, and transportation
- (+) Energy from wind power, hydropower and bio-fuels

[Alexander Osojnik]

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., in %	2014, in %	2013, in %	2012, in %	2011, in %	2010, in %	Mgmt. fee, in %	Volume in mn.	Risk notes ¹⁾
ERSTE RESPONSIBLE STOCK GLOBAL	15.49	15.21	17.52	9.51	-4.90	16.61	1.50	224.1	
ERSTE RESPONSIBLE STOCK EUROPE	17.76	6.89	18.55	20.88	-23.03	9.40	1.50	21.2	A
ERSTE RESPONSIBLE STOCK AUSTRIA	14.80	-10.80	4.16	29.19	-38.75	16.63	1.50	10.6	A, B
ERSTE RESPONSIBLE STOCK EUROPE EMERGING	5.82	3.70	-4.95	24.99	-31.51	16.65	1.80	9.7	A
ERSTE RESPONSIBLE STOCK AMERICA*	0.16	7.37	22.21				1.80	52.8**	A
ERSTE WWF STOCK CLIMATE CHANGE	17.78	12.51	55.88	-7.35	-25.66	3.19	1.50	14.	A
ERSTE WWF STOCK UMWELT	17.09	14.65	35.34	5.63	-23.39	14.25	1.50	68.	A

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 31 March 2015. 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.

* Renaming and shift of focus as of 8 April 2013 (former name: ESPA STOCK AMERICA)

** in USD

1) Risk notes

- A The 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 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).

[Alexander Osojnik]

Bond funds, mixed funds

All funds are denominated in Euro.

Fund name	Since 1. 1., in %	2014, in %	2013, in %	2012, in %	2011, in %	2010, in %	Mgmt. fee, in %	Volume in mn.	Risk note ²⁾
ERSTE RESPONSIBLE RESERVE*	0.66	1.78	0.31	5.33	0.60	2.21	0.24	76.3	
ERSTE RESPONSIBLE BOND	2.08	9.75	0.42	10.57	0.94	1.72	0.60	168.1	
ERSTE RESPONSIBLE BOND EURO-CORPORATE	1.44	7.55	1.45	12.89			0.60	176.7	
ERSTE RESPONSIBLE BOND EMERGING CORPORATE	2.20	6.00	**				0.96	68.2	
ERSTE RESPONSIBLE BALANCED	3.80	7.63	1.65	**			1.00	14.0	a)

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 31 March 2015. 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.

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

** Fund inception during fiscal year, annual performance can therefore not be shown.

2) Risk note

- a) 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., in %	2014, in %	2013, in %	2012, in %	2011, in %	2010, in %	Mgmt. fee, in %	Volume in mn.	Risk note ³⁾
ERSTE RESPONSIBLE MICROFINANCE	2.65	4.11	2.54	3.20	2.48	0.78	1.00	20.9	x)

Performance calculated according to the OeKB (Österreichische Kontrollbank AG) method, as of 27 February 2015. The management fee is included in 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.

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).

The Austrian Financial Market Authority (FMA) hereby warns: 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.

EAM Funds carrying the Novethic SRI Label 2014

The Novethic SRI Label is awarded to Socially Responsible Investment (SRI) funds that demonstrate a systematic integration of Environment, Social and Governance (ESG) considerations in fund management. The label provides investors with a guarantee of transparency and of the traceability of their investments.



It is based on four criteria:

- Environment, Social and Governance (ESG) assessment of at least 90% of the portfolio
- a transparent SRI selection process
- regular information on the SRI qualities of investments
- full publication of the portfolio's composition

Further information on www.novethic.com

EAM Rating for Fonds with the Novethic SRI Label 2014

All funds are denominated in Euro.

Fund name	Average ESG-Rating		Exclusion Rate
	Funds	Funds-Universe	
ERSTE RESPONSIBLE STOCK GLOBAL	C+	C-	65.8%
ERSTE RESPONSIBLE STOCK EUROPE	B-	C-	53.1%
ERSTE RESPONSIBLE BOND	B-	C-	64.0%
ERSTE RESPONSIBLE BOND EURO-CORPORATE	B-	C-	64.4%

Average ESG-Rating and Exclusion Rate

The **Average ESG Rating of the Fund** refers to all securities actually held by the fund, whereas the **Average ESG Rating of the Fund Universe** denotes the average of all securities that are rated for the fund, based on the stringent sustainability criteria of Erste Asset Management.

The **Exclusion Rate** indicates how many securities from the respective fund universe are rated "not investable" for the respective fund. For example, a 60% exclusion ratio means that only 40% of all potential securities are investable for the fund.

EAM-specific ESG Rating

The **EAM-specific ESG Rating** ranges from A+ to E. It scrutinises exclusively those companies that have already been rated by the three rating agencies cooperating with Erste Asset Management. In evaluating ESG criteria, EAM takes a very stringent approach. Thus, only 36% of the approx. 3,500 companies currently rated (i.e. the EAM Total Universe) are investable (with a rating from A+ to C). At the moment, the average rating of the EAM Total Universe is D+. The investable universe is further restricted by exclusion criteria. Only one company achieves our current top rating of A-.

- | | |
|----------|------------------------------|
| A | excellent |
| B | good |
| C | satisfactory |
| D | inadequate, not investable |
| E | insufficient, not investable |

All Data (Average ESG-Rating for Funds, the Funds Universe and the Exclusion Rate) per 28.02.2015.

[Alexander Osojnik]



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