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Market report from a responsible investor's view

Equities:

Equity markets continued to gain during the first half of October with uncertainty among investors rising towards the end of the month. The performance for the month was only slightly in the black. Released macro data were rather mixed, they confirmed the impression of an economic stabilisation on the one hand but raised fears about sustained growth over the next periods. Positive expectations and high liquidity seem to support the market current levels.

In this environment crude prices were up by about 5%, while the EUR moved up further versus the US currency and stabilised within a trading range between 1.45 and 1.50 USD. Different sustainable themes showed a diverse performance. While renewable energy and water showed a negative contribution, the themes energy efficiency and waste performed positively.

In the past month international sustainable equity indices showed by the majority a performance close to their 'conventional' peers. In October European sustainable indices performed slightly above broad market indices. For the Austrian equity market which had a strong correction in October sustainable VÖNIX returned slightly below the ATX Prime which includes broader and real estate equities.

Index comparison (October 09)			
↓ FTSE 4 Good Global Index	-1.9%	↓ FTSE 4 Good Europe 50	-1.8%
↓ Dow Jones Sustainability World TR	-2.2%	↓ Dow Jones STOXX 50	-1.8%
↓ Ethical Index Global Top 30	-1.4%	↓ Dow Jones STOXX 600	-2.3%
↓ Ethical Index Global Tradeable Return	-2.5%	↓ MSCI Europe	-2.1%
↓ MSCI World Total Return	-2.3%	↓ VÖNIX	-6.5%
		↓ ATX Prime	-6.3%
		↓ ATX	-5.8%

Fixed Income:

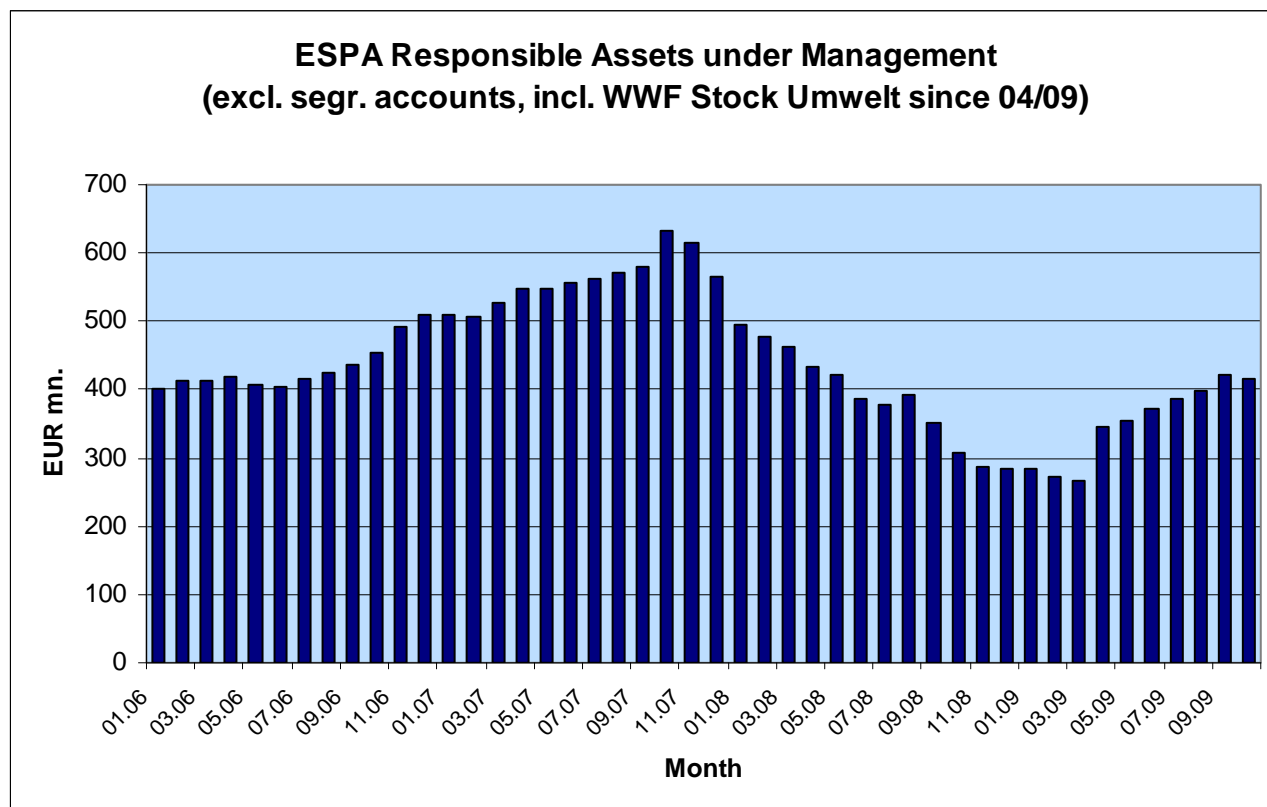
Several economic data released in October have been below market consensus. After a strong recovery in the past months coming from very low levels market participants ask themselves if the global economy that escaped from recessionary territory in the 3rd quarter 2009 can find sustainable growth in the upcoming quarters. There are doubts about that as the latest growth was strongly supported by governmental actions and many indicators like capacity utilization and industrial production still remain on historically low levels. European data like Purchasing Manager Indices, IFO index improved unlike disappointing US data.

Q3 results of companies that have been eagerly awaited mostly outpaced market expectations so far. Additionally strong liquidity supports the rising risk appetite of market participants. Governments and central banks are working on their exit strategies for the adequate and timely withdrawal of the high levels of liquidity. But we still do not expect any changes to the interest rate policy of the big central banks in the coming months. The rate of inflation is currently hovering around zero percent due to base effects from the previous year, although we seem to be past its low.

The spreads on the bonds of industrial companies and financial service providers continued to outperform the market by and large in October. The primary market saw sizeable issues of covered bonds as well as credits. Government bond yields closed October on slightly higher levels. The Bund Futures continued its broad sideways range of 120.50 to 123.00. The 10Y yield of German government bonds was around 3.25%.

Performance data for the ESPA Responsible Investment funds

Performance data per 31/10/09 Sustainability Funds	2009 YTD	2009 YTD vs. Benchmark	MTD 10/09	fund volume in mn. EUR
ESPA VINIS STOCK GLOBAL	22.2%	-0.5%	-1.6%	127.9
ESPA VINIS STOCK EUROPE	22,0%	-3.7%	-2.4%	30,6
ESPA VINIS STOCK AUSTRIA	37.8%	-1.8%	-3.9%	26,7
ESPA VINIS STOCK EUROPE EMERGING	48,0%	-25.3%	0.9%	6,9
ESPA VINIS BOND	8,0%	0,0%	0.3%	87,0
ESPA VINIS CASH	10.8%	9.4%	0.5%	33.9
Performance data per 31/10/09 Environmental Funds	2009 YTD		MTD 10/09	fund volume in mn. EUR
ESPA WWF STOCK CLIMATE CHANGE	12.5%		-5.6%	52.8
ESPA WWF STOCK UMWELT	6.9%		-5.3%	50.9
Total Assets under Management				416.7

ESPA Responsible Investment funds: Assets under Management

Latest developments within the ESPA Responsibility Team

Media appearance of ESPA Responsibility Team

- Lebensart 06/2009 article „They are structuring Austria in a sustainable way“ („Sie gestalten Österreich nachhaltig“) <http://www.lebensart.at/start.asp?ID=1036>
- Handelsblatt article „It´s worth a closer look“ („Ein genauer Blick lohnt“) from 12/10/2009
- Institutional Money article „FERI nominates the best funds for the 2009 FERI-Award“ („FERI nominierte die besten Fonds für den diesjährigen FERI-Award“) from 20/10/2009
http://www.institutional-money.com/cms/fileadmin/user_upload/Bilder_Grafiken_News/PDF_News/FFA_2010_Nominees_-_DE.pdf
- FER-sustainability report from 29/10/2009 <http://www.fondsprofessionell.at/upload/attach/261449.pdf>
- ESPA-Podcast Episode 10 „Investing with value added – sustainable investing“ („Veranlagungen mit Mehrwert – nachhaltig investieren“)
<http://espa.create.at/>

Proceedings & development

- Filing for the start of a Microfinance fund of funds at the Austrian Financial Market Authority (FMA)
- Erste-Sparinvest signed the UNPRI (UN Principles for Responsible Investment) as a member
- Erste-Sparinvest becomes member of „Global Agreement on Climate Change“
- Participation of ESPA Responsibility Team at the following conferences in November 2009:
 - K2 ESG-Hedge Fund Conference 03/11/2009 in London
 - TBLI Conference 12/11-13/11/2009 in Amsterdam
 - IPE Pension Fund Awards 2009 18/11/2009 in Dublin

Changes in the investment universe (November 2009)

The implementation of the SRI concept and the inclusion of SRI-research (oekom, Innovest, RiskMetrics/ former ISS und RFU) adaptations of the investment universe are made on a monthly basis. These adaptations are translated into our responsible investment funds. This means that a security that got excluded from the universe also has to be sold from all SRI-portfolios and on the other hand a security that is included in the SRI-universe can be invested into SRI-portfolios in the future.

Included - Reasons:

- Colgate-Palmolive – abolition of exclusionary criteria
- Energy Recovery – initial coverage
- Krones – improvement regarding environment-related performance

Excluded - Reasons:

- Heidelberger Druckmaschinen – deterioration regarding environment related performance

ESPA VINIS Investment Board highlights

(last Meeting 10/22/09)

The ESPA VINIS Investment Board is hosted by the Responsible Investments Team of ESPA and joins financial specialists of ESPA as well as SRI-specialists of the SRI-rating agencies involved in our process. Topics of discussion are e.g. single issuers, sectors or criteria.

Discussion concerning the portfolio/ single issuers:

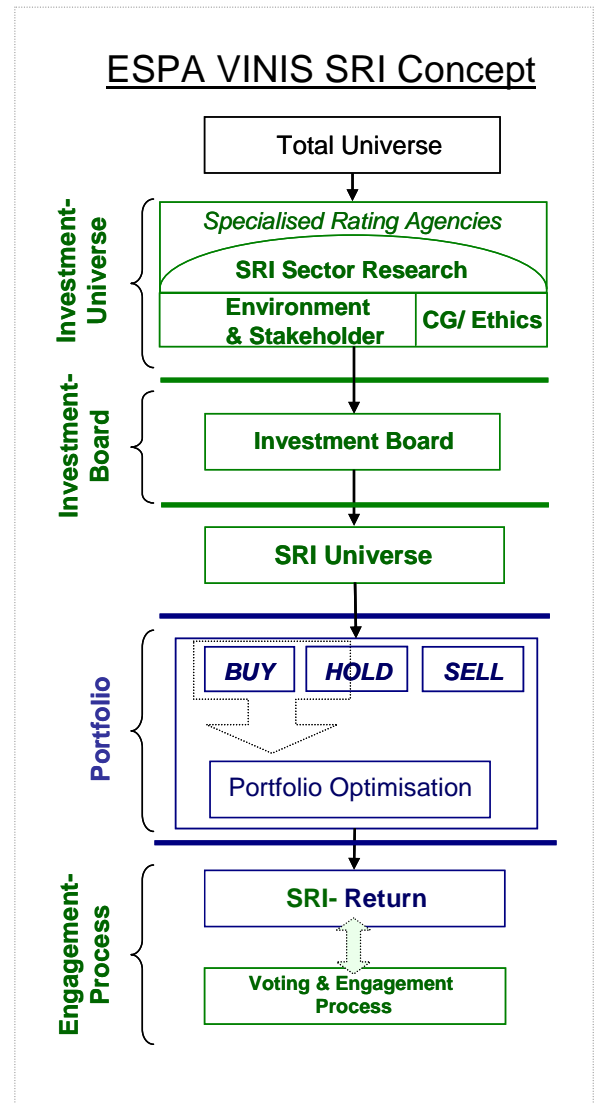
- Assessment of the topics of ‘desalination’ and ‘irrigation’? Are companies in these sectors regarded as sustainable (high energy costs for desalination and depletion of water supplies for irrigation projects)?
- Opinion on tidal power plants? Will they be able to escape their standing as a “niche” sub-sector among renewable energies?
- How are electro car projects included and assessed when automobile companies are analysed?
- Are sports companies like football clubs covered by the rating agencies? Do they qualify for a sustainable universe and what are the main assessment criteria for them?
- Rating agencies approach of the topic of ‘obesity’?

Engagement activities

ESPA Responsibility started a cooperation with the UK based investment- and research company F&C on engagement and voting on a global basis. F&C provides ESPA with their engagement activities and releases concerning holdings within the Responsible Investment funds of ESPA outside of Austria.

International: Cooperation with F&C, voting platform recently built up

Austria: Engagement with Zumtobel and Agrana



Stock on the watch

Henkel AG & CO KGAA

(Bldg&Construct Prod-Misc)

ISIN:

Last price (13/11/09)

Market capitalisation (in mn.)

P/E (Price-earning ratio) current

Dividend yield

Financial rating (Moody's / S&P)

HEN3 GR

DE0006048432

EUR 32.22

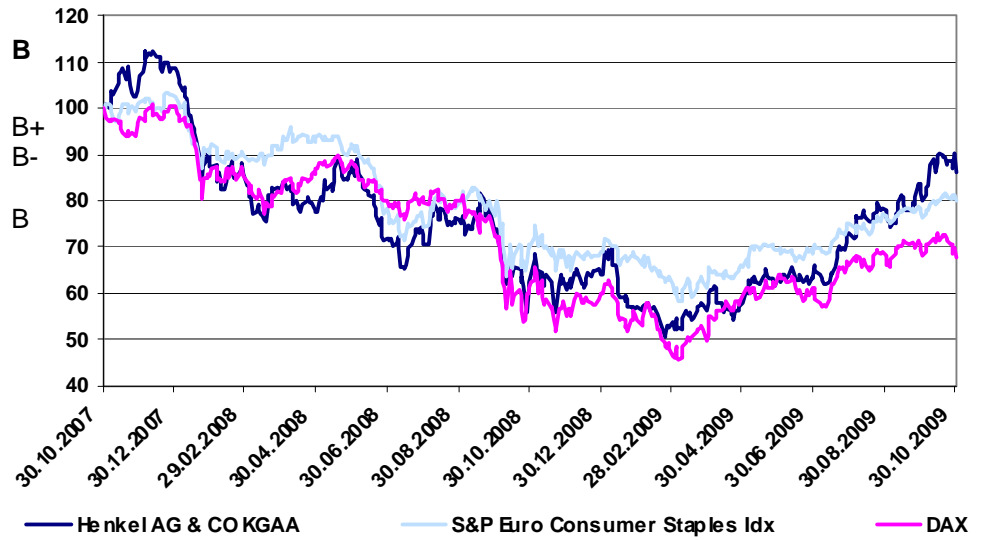
EUR 12845,82

10.74

1.64%

A- / A-

Performance since 10/2007



SRI-Rating (total):

(Range A-D)

Environment rating (Range A-D): B+

Stakeholder rating (Range A-D): B-

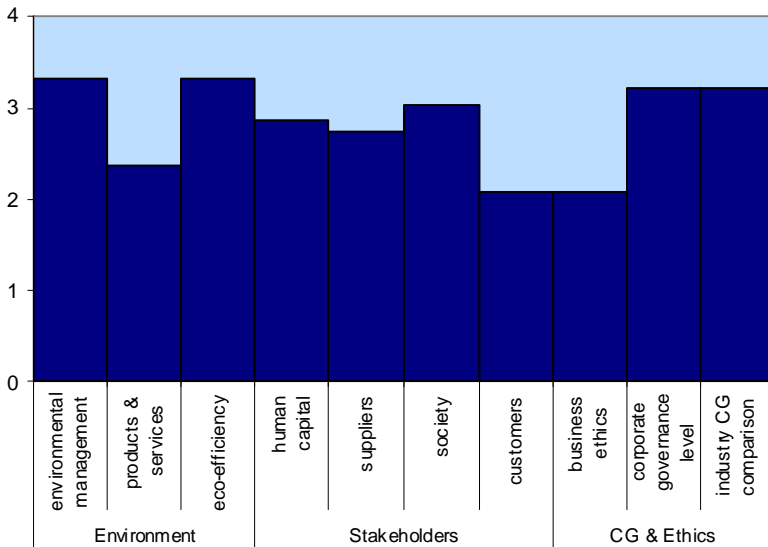
Corporate Governance /

Ethics Rating (Range A-D): B

Invested in funds as follows:

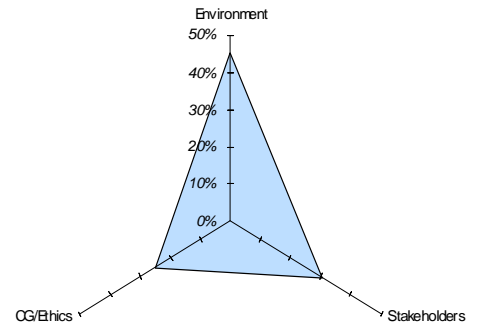
ESPA VINIS STOCK GLOBAL

ESPA VINIS SKYLINE (Company level)



ESPA VINIS STAR (Sector level)

Environment: 45.0%
Stakeholders: 30.0%
CG / Ethics: 25.0%



(4: best rating; 0: worst rating)

Glossary

SRI – Socially Responsible Investment

YTD – year to date

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). By using SRI ratings investors can judge a company's exposure to environment and stakeholders. The ESPA Responsibility team has co-operations with several SRI-rating agencies (oekom research, RiskMetrics (former ISS), Innovest Strategic Value Advisors, RFU), which cover different key aspects. In contrast to SRI rating agencies, finance rating agencies (e. g. Moody's, Fitch, S&P, etc.) are focussing on companies' financial data only.

Investment universe – Each investor has a pool of companies (funds universe, investable universe) in which he is allowed to invest. Companies need to perform above average with regards to sustainability performance to become part of the ESPA responsible investment universe. In order to promptly react to changes on a company level, the ESPA Responsibility investment universe is updated on a monthly basis. Finally, the fund manager picks those companies with the best prospects according to fundamental financial data.

Coverage – The sum of all companies analysed by a rating agency is referred to as coverage. If a company is analysed for the first time this is called initial coverage.

Exclusionary criteria – No investments are made in particular sectors or companies, which violate certain (exclusionary) criteria (e. g. violation of labour regulation, nuclear energy, etc.). These criteria include ethical, social and governance risk factors.

ESPA VINIS Investment Board – In this board specialists in terms of sustainability meet financial experts. Together with the ESPA Responsibility team they discuss topical issues and current developments, IPOs, or the latest trends in different industry sectors.

Engagement – Engagement means that the investor tries to convince/persuade the management of a company to take actions in the fields of social responsibility, environment or transparency. On a national basis engagement is done by the ESPA Responsibility Team itself, on a global basis there exists a co-operation with F&C, who is specialised provider in this area.

Voting – Voting means the active exercise of the voting rights at shareholders' meetings. Possible targets are the increase in transparency in case of nominations for the board of directors, or more transparency in management compensation. In the area of voting, the ESPA Responsibility team also cooperates with F&C.

ESPA VINIS SKYLINE – ESPA VINIS SKYLINE illustrates the evaluation of single criteria for each company (e.g. environmental management, products & services, human capital, etc.). This evaluation is based on a rating score ranging from 0 (worst score) to 4 (best score). The single ratings are added up according to their weightings, which finally leads to a combined SRI rating.

ESPA VINIS STAR – Each sector has different areas of focus with regards to sustainability. The ESPA VINIS STAR shows the weightings of the three dimensions (environment vs. stakeholder vs. CG/ethics). The weighting of CG/ethics is held constantly at 25%. The weightings of the other two dimensions vary depending on the sector. For example, stakeholder issues are weighted higher in the service sector, whereas the importance of environmental issues is more dominant in the industrial sector.

Imprint

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