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## Market report from a responsible investor's view

### Equities:

After a negative start equity markets consolidated towards the end of February and finished in the black. Reasons for the sideways trend in major equity markets were unconvincing macroeconomic data from the US as well as growing uneasiness about the creditworthiness of highly indebted industrial countries. Investors increasingly cast doubt on growth perspectives for the US and European economies. The price for crude oil slightly increased in the market environment illustrated above, while the Euro precipitated to a level of around 1.35 versus the US currency.

Sustainable themes showed mixed performances last month. Whereas sectors such as water, mobility, alternative transport and energy efficiency showed positive performances, sectors like solar, wind and fuel cells performed negative.

In the past month international sustainable equity indices showed a slightly better performance than their 'conventional' peers. European sustainable equity indices performed in line with their 'conventional' peers. For the Austrian equity market, which performed quite negative, sustainable VÖNIX lagged behind the ATX Prime and the broader Austrian equity index.

Index comparison (February 10)			
↑ FTSE 4 Good Global Index	0.3%	↓ FTSE 4 Good Europe 50	-0.4%
↑ Dow Jones Sustainability World TR	2.0%	↓ Dow Jones STOXX 50	-0.3%
↓ Ethical Index Global Top 30	-0.2%	↓ Dow Jones STOXX 600	-0.5%
↑ Ethical Index Global Tradeable Return	2.4%	↓ MSCI Europe	-0.4%
↑ MSCI World Total Return	1.8%	↓ VÖNIX	-2.4%
		↓ ATX Prime	-2.1%
		↓ ATX	-2.2%

### Fixed Income:

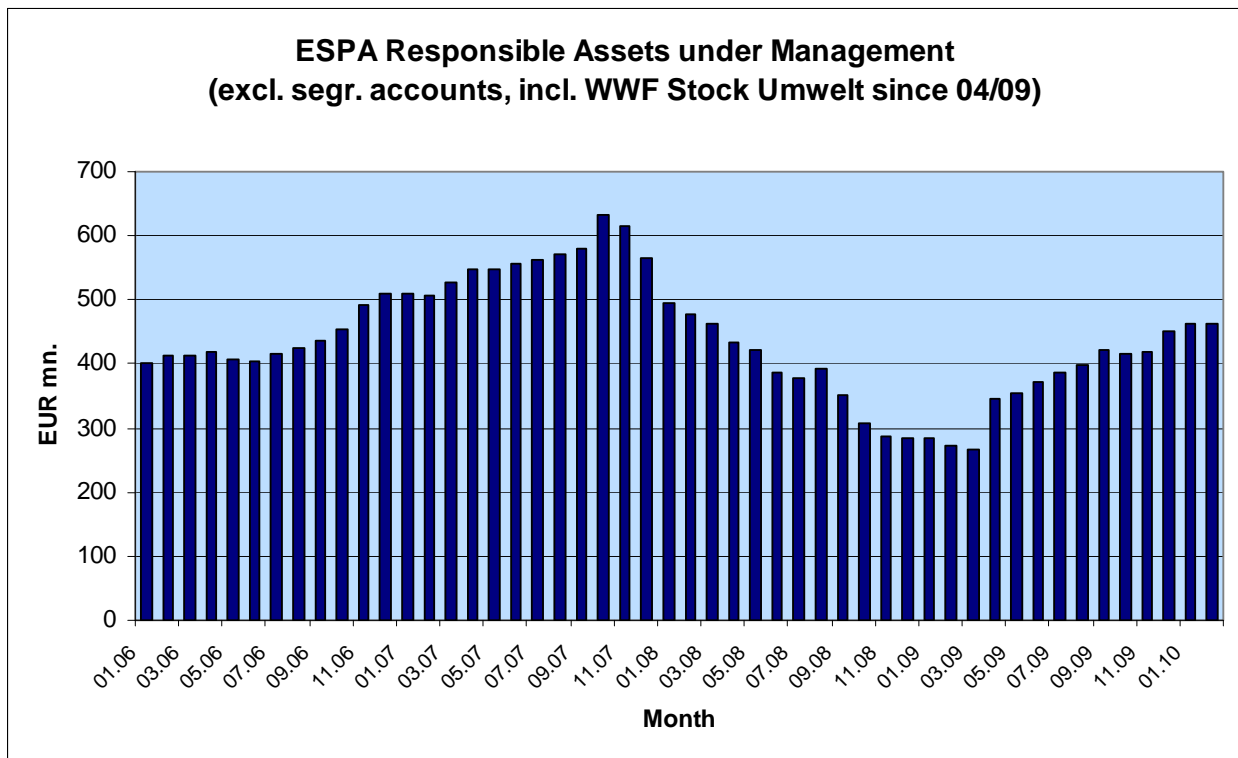
The currently underlying economic setting continued in February with a slight upswing in the developed markets. In the US economic growth was revised upwards to 5.9% for the fourth quarter. However, the latest data showed a mixed picture. Whereas the ISM Manufacturing index, industrial production, and leading indicators came as a positive surprise, consumer confidence, ISM service index, and labour and property market data were predominantly disappointing. European data such as purchase manager indices, IFO and ZEW indices were also mixed and failed to give the market any directions other than the ones already imposed by the dominant topic, i.e. government debt (especially Greece). Governments and central banks continue to signal their support, although the increase in the discount rate of 0.25% by the Fed caused short-lived jitters in the market. Key lending rates should remain unchanged for months. The inflation rate remained stable on low levels.

The issuing activity was average in February. While states were rather active on the primary market, there were relatively few attractive credits among the new issues. The bond spreads for industrials and financial service providers were going separate ways in February. iTRAXX CDS indices closed the month slightly narrower. The yields of government bonds closed the month down across the entire interest rate curve; especially short maturities achieved significant falls in their yields due to their function as safe haven.

The Bund futures contract was oscillating vividly within a range of 122.50 - 124.50. The yield of 10Y German government bonds had fallen significantly to 3.10% by the end of the month. The interest rate curve steepened marginally in February (10Y – 2Y Governments: 214bps).

**Performance data for the ESPA Responsible Investment funds**

<b>Performance data per 02/26/10 Sustainability Funds</b>	2010 YTD	2010 YTD vs. Benchmark	MTD 02/10	fund volume in mn. EUR
ESPA VINIS STOCK GLOBAL	0.3%	-1.6%	1.7%	158.9
ESPA VINIS STOCK EUROPE	-6.0%	-0.6%	-1.4%	19.6
ESPA VINIS STOCK AUSTRIA	-3.6%	-0.4%	-2.3%	22.9
ESPA VINIS STOCK EUROPE EMERGING	0.5%	0.9%	-3.1%	7.3
ESPA VINIS BOND	1.7%	0.1%	0.7%	106.5
ESPA VINIS CASH	1.0%	0.9%	0.2%	45.1
<b>Performance data per 02/26/10 Environmental Funds</b>	2010 YTD		MTD 02/10	fund volume in mn. EUR
ESPA WWF STOCK CLIMATE CHANGE	-4.9%		-0.4%	56,5
ESPA WWF STOCK UMWELT	-1.6%		-1.4%	45.5
Total Assets under Management				462.3

**ESPA Responsible Investment funds: Assets under Management**

## Latest developments within the ESPA Responsibility Team

### Media appearance of ESPA Responsibility Team

- Börsen-Kurier article "Social yield puts question of cost into perspective" ("Soziale Rendite relativiert Kostenfrage") from 02/18/2010
- Fondsprofessionel article "Microfinance on the upswing – Mutual Funds Overview" ("FER: Microfinance im Aufwind – Fonds im Überblick") from 03/05/2010  
<http://www.fondsprofessionell.at/redsys/newsText.php?sid=376273&nlc=AT>
- Die FondsNote - Newsletter article "Sun and rain: Assessment of Eco-funds over the last 5 years" ("Sonne und Regen: Fünf-Jahres-Bilanz der Öko-Fonds") March 2010  
[http://newsletter.advisors-world.de/FAS/Newsletter/FAS\\_Newsletter.pdf](http://newsletter.advisors-world.de/FAS/Newsletter/FAS_Newsletter.pdf)
- Relevant article "Panacea or Debt" ("Allheilmittel oder Schulden") March 2010

### Proceedings & development

- Start of the first European Microfinance fund of funds at 01/04/2010
- ESPA VINIS BOND ranked 3<sup>rd</sup> within Euro Diversified Bonds at Morningstar Awards
- Participation of ESPA Responsibility Team at the following conferences in March/April 2010:
  - 3<sup>rd</sup> Microfinance Investment Summit 03/09 – 03/11/2010 in Geneva
  - Morningstar Awards 03/25/2010 in Vienna
  - ESPA VINIS MICROFINANCE Investment Board 04/23/2010 in Vienna
  - Good Steward Enhanced Fund Investment Board Meeting end of April 2010 in Seoul

## Changes in the investment universe (March 2010)

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:

Comverge, Daldrup & Söhne, Echelon, Enova Systems, General Mills, Itron, Ram Power, OMV Petrom - companies included in research universe

### Excluded - Reasons:

Kansas City Southern - deterioration regarding corporate governance-related performance  
 Mazda Motors - deterioration regarding stakeholder & environment-related performance  
 Duke Energy - deterioration regarding environment-related performance

## ESPA VINIS Investment Board highlights

(last Meeting 03/10/10)

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:

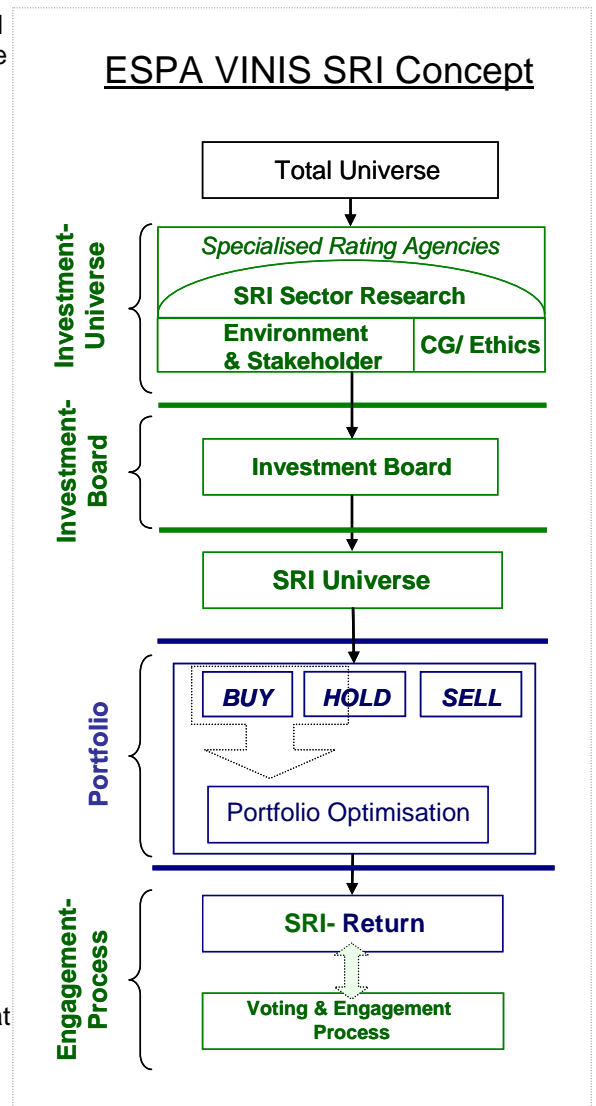
- Discussion of the ratings of 'BP' versus 'Shell' in view of strategy and the handling of CSR issues in both companies.
- How are 'recalls' in the automotive industry assessed by the rating agencies (with regards to companies' client relations)?
- Burlington Northern has been taken over by Berkshire Hathaway - will there be a sustainability rating of Berkshire Hathaway by the rating agencies?
- What is the rating agencies view on 2nd generation bioethanol (regarding the application of enzymes in the production process and the opportunities and risks involved)?
- Cloud computing is an upcoming trend in the field of green IT. What is the ratings agencies view on this topic and are there any other major trends in this field one should be aware of?

## 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 Agrana and Österreichische Post



## Stock on the watch

### Sanofi-Aventis

(Medical-Drugs)

ISIN:

Last price (03/18/10)

Market capitalisation (in mn.)

P/E (Price-earning ratio) estimate

Dividend yield

Financial rating (Moody's / S&P)

### SAN FP

FR0000120578

EUR 56.56

EUR 74573.24

14.03

4.24%

A1 / AA-

### SRI-Rating (total):

(Range A-D)

Environment rating (Range A-D):

Stakeholder rating (Range A-D):

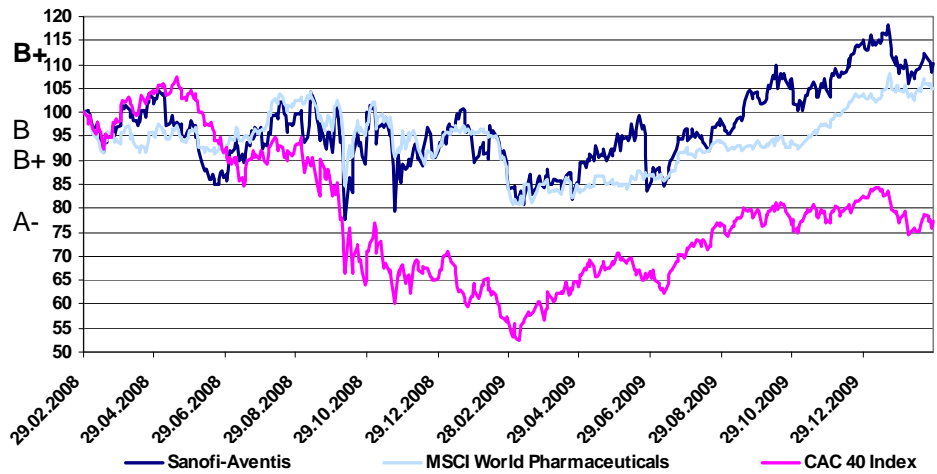
Corporate Governance /

Ethics Rating (Range A-D):

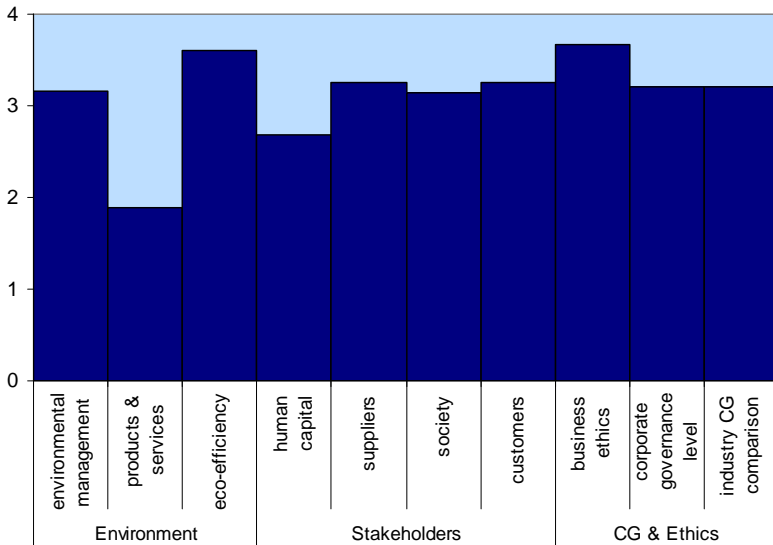
Invested in funds as follows:

ESPA VINIS STOCK EUROPE

Performance since 02/2008



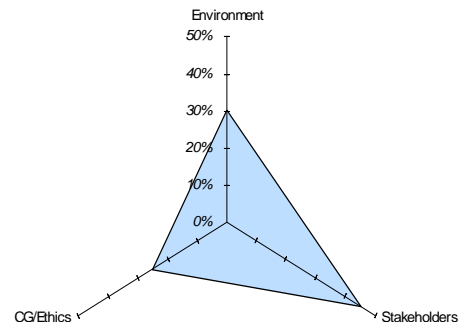
ESPA VINIS SKYLINE (Company level)



(4: best rating; 0: worst rating)

ESPA VINIS STAR (Sector level)

Environment: 30.00%  
 Stakeholders: 45.00%  
 CG / Ethics: 25.00%



## 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**

### **ERSTE-SPARINVEST KAG**

1010 Wien, Habsburgergasse 1a

### **VINIS Gesellschaft für nachhaltigen Vermögensaufbau und Innovation m.b.H.**

1020 Wien, Obere Donaustraße 49 - 53

## **Contact**

### **INSTITUTIONAL SALES - INTERNATIONAL**

Tel: +43 (0) 50 100 19960

E-mail: [international@sparinvest.com](mailto:international@sparinvest.com)

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