Outlook remains good for high-yield bonds[1]

In recent years, high-yield bonds profited disproportionately strongly from the low interest rate environment, high liquidity on the markets and the sometimes unorthodox measures by central banks. With a gain of 7.5% since the beginning of the year, this asset class once again had a very good year, following last year's stunning performance (+22.3%).[2] Looking ahead to 2014, the outlook for solid gains for high-yield bonds remains intact.

This is the case because rising yields should be supportive for high-yield bonds (corporate bonds with weaker credit ratings) in the months ahead, as the risk premiums on these bonds represent a kind of buffer against rising yields and thus allow for higher returns than can be achieved on investment grade bonds for example. At the same time, investors must accept a certain risk in exchange for these higher returns, as the default rates and liquidity risks in this segment are naturally higher than for corporate bonds with good to excellent ratings.

The scenario of rising yields is suggested by the anticipated tapering by the US Fed: at present, the euro area is in a kind of comfort zone with "normalising" government bond spreads, looser credit conditions, low default rates and modest economic growth, but Europe will still not be able to decouple from the trend of rising yields in the USA. Even though the European Central Bank's new communication strategy of "forward guidance" has been successful in calming the markets down, yields will also begin to rise again in the euro area, with some delay. With this in mind, many international investors are turning their attention more and more to Europe: the share of EUR high-yield bonds versus US paper is gaining importance from year to year.

Comparing the performance of US high-yield bonds to US government bonds during periods with rising interest rates, the high-yield instruments have regularly performed better than Treasuries since 1985 (see Chart 1).

Naturally, tapering may also lead to short-term setbacks for high-yield bonds as well: early last summer, when the Fed announced a reduction of its government bond purchases, high-yield bonds suffered the worst monthly losses in the last two years. But shortly thereafter, this asset class once again demonstrated the strengths discussed above.

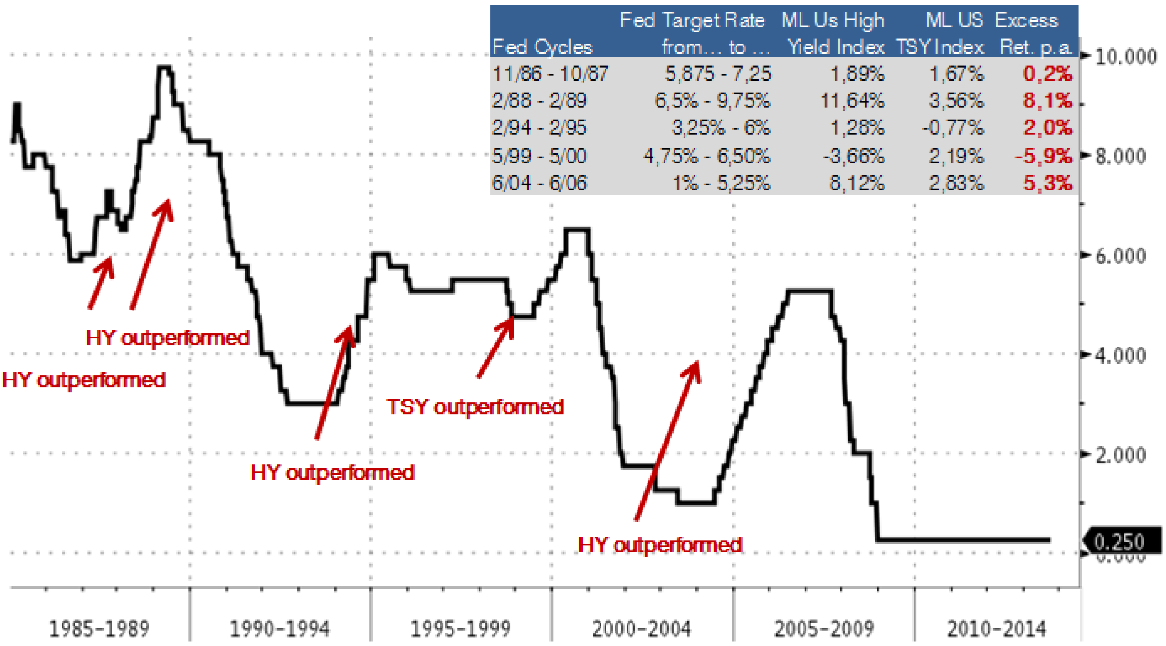
Nevertheless, due to their higher default risk (and possibly also because of their nickname of "junk bonds"), investors still have reservations about these instruments. This scepticism is perhaps uncalled for, because since the beginning of 2000 this asset class has performed much better in absolute terms than the equity indices of leading Western stock markets, such as the S&P 500 or the Euro Stoxx 50. Much of this relative outperformance came after 2008, i.e. after the outbreak of the financial crisis. Many companies can look back

[1] The following analyses focus on the current situation and can change at any time without notice. They do not constitute a forecast for the future development of the bond markets or the fund Raiffeisen European HighYield.

[2] Performance is calculated by Raiffeisen KAG pursuant to the OeKB method, based on the data from the depository bank (in the event that payment of the redemption price is suspended, available indicative values are used). Past performance is not a reliable indicator for the future development of the investment fund.

on several years of debt reduction. This has also set the stage for the low default rates registered in recent years. According to an estimate by Moody's, the default rate for the next 12 months is 2.8%.[3] The low default rate is supported by the better economic conditions and the related expectations of less tight lending conditions. Nonetheless, high-yield bonds are not a risk-free investment. Careful selection of the individual issuers is crucial. This is particularly true, because companies' earnings performance and financing options are can quickly come under pressure again, if the economic recovery falters.

Chart 1: US High Yields vs. Treasuries



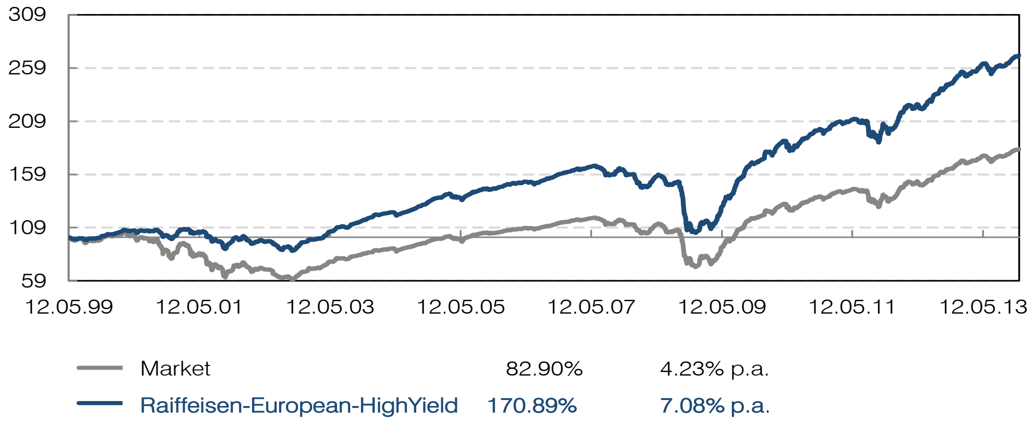
Source: Raiffeisen KAG, Bloomberg Finance L.P., Merrill Lynch, own calculations, October 2013

Raiffeisen Capital Management[4] remains optimistic about the prospects for high yield corporate bonds and expects that in 2014 it will be once again possible to earn higher returns with these instruments than with German Bunds, US Treasuries or investment grade bonds. Despite this, it is not likely that the double-digit returns from the previous years will be repeated. In recent years, strong inflows of capital were registered for Raiffeisen European HighYield, and as a result the fund volume currently amounts to EUR 525 mn. The fund's recent performance of 10% (in the last 12 months) was primarily due to the careful selection of individual securities. Raiffeisen European HighYield mainly invests in bonds with ratings lower than Baa3/Moody's, BBB-/S&P and BBB-/Fitch, but also includes investment grade bonds in the portfolio. Bonds from euro-area peripheral countries are expected to generate positive impetus for the fund's performance in the months

[3] Moody's October Default Report, November 12, 2013.
[4] Raiffeisen Capital Management stands for Raiffeisen Kapitalanlage-Gesellschaft m.b.H. and Raiffeisen International Fund Advisory GmbH.

ahead. In terms of its positioning in financials, the fund management takes a cautious approach, but subordinated financial sector bonds from euro-area core countries are also taken into consideration.

Chart 2: Performance of Raiffeisen European HighYield since launch



Source: Raiffeisen KAG, own calculations, total return indexed, 12 May 1999 to 29 Nov 2013

For more information and details on the new fund, please contact your Sales Manager.

The published prospectus as well as the key investor information fort he Raiffeisen-European-HighYield are available at www.rcm-inaternational.com in English language or your national language.

Due to the composition of the fund and the management techniques which are employed, the fund exhibits elevated volatility, meaning that unit prices can move significantly higher or lower during short periods of time, whereby it is not possible to rule out loss of capital.