

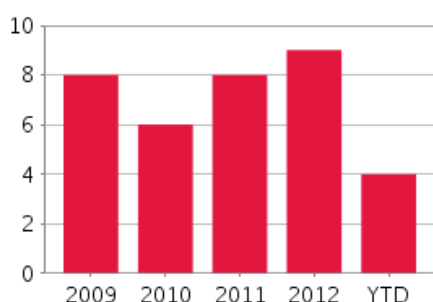


Latest grading issued July 2013

## Fund profile

Launch date	February 1994
Manager location	Vienna
Sector	Emerging markets equities
Peer group	Emerging markets EMEA
Fund benchmark	MSCI Emerging Europe 10/40
Fund size	€528m (1 May 2013)

## Calendar-year decile ranks



Decile ranking in discrete annual periods. First decile (highest returns) shown as rank 10, second decile as rank nine with tenth decile (lowest returns) as rank one.

## Cumulative returns

	3 years	5 years
Fund share class	0.9%	-23.9%
S&P Capital IQ peer median	-8.2%	-34.1%
Index**	16.6%	-28.0%
Fund share class rank	53/361	54/322
Volatility-adjusted ranking	53/361	49/322

\*\* S&P/IFCI Europe TR

**Fund owner:** Raiffeisen-Gruppe

**Fund manager/adviser:** Raiffeisen Capital Management

**Named portfolio manager/adviser(s):** Team

**Contact group:** +43 1 711 70 1700 or www.rcm.at

## Review period 12 months to end-April 2013

John Monaghan, Analyst at S&P Capital IQ Fund Research, prepared and is responsible for this report; the Grading Committee is responsible for the grading.

*The following report is based on information taken direct from the group either via interview or as a written document and augmented by information in the public domain. The sources of performance data are provided within the report. All opinions are our own.*

## Fund Research opinion (July 2013)

For the past two years, this fund has been managed using Raiffeisen Capital Management's (RCM) core competency of in-depth fundamental analysis, supplemented with a quantitative stock selection model.

The quant screen is very similar to that applied to the team's GEM fund, but within this product it accounts for only 25% of the total portfolio - the GEM fund is 70% reliant on the model. The model is fairly simplistic in nature and combines a mix of value and momentum criteria to the 60 largest companies in the fund's MSCI EM Europe 10/40 benchmark to create two parallel sub-portfolios. Each of these contains no more than 15 stocks and represents 12.5% of the fund overall. The difference between the two sub-funds is in their timing and execution, one lagging the other by three months, thus introducing an element of stock commonality (between 15 and 30 holdings overall). Re-balancing is performed on a semi-annual basis.

The majority of the portfolio is driven by the expertise of the CEE sub-team of three that forms part of the eight-strong GEM team. Research responsibilities are organised along country lines. The overall team head and this fund's lead manager, Angelika Millendorfer, has over 25 years' experience and is responsible for the majority of the Russian market (financials and commodity-related stocks), while Gregor Holec (15 years' experience) focuses on the remaining Russian sectors and Turkey; András Szálkai (17 years) covers the Central European states and the Middle East.

Stock research follows a Garp-based approach that looks to determine the sustainability of a company's true profitability. A range of sector-specific multiple comparisons are employed, including EV/Ebitda, price/earnings and price/cashflow ratios. DCF analysis is a key element of the process, as it allows the comparison of stocks across countries and sectors. Investments are made on an 18- to 24-month view and are reassessed when target prices are met, fundamentals change or when they underperform.

Taking into account the two elements, the final portfolio is diversified across 65-90 names. For liquidity purposes, most holdings are capitalised above €300m. Active stock weights can reach 7% on high-conviction names and 3.5% for less liquid stocks, but are more typically 3% and 1.5%, respectively. Tracking error is kept within a 4-6% range.

To emphasise stock selection, the fund is typically close to country neutral. At review, therefore, it was no surprise to see minimal deviations against the index - Poland (index -2.5%) was the largest underweight, offsetting positions in off-benchmark plays Kazakhstan (1.8%) and Romania (0.8%). At the sector level, energy (+2.2%) and healthcare (+1.8%) were favoured, while telecoms (-3.6%) and financials (-3.4%) were the least preferred.

Returns have been decent since the fund adopted the quantitative element. Over the past 12 months, returns have been strong against our peer group and the benchmark. Stock selection was the driver of returns, with both processes adding value. The quantitative element was particularly effective in Turkey, while discretionary picks in Poland and Russia further buoyed returns.

The fund benefits from a stable and experienced team combined with a quantitative element that has aided returns in the period since it was introduced.

The fund comfortably retains an S&P Capital IQ Silver grading.

# Raiffeisen-Osteuropa-Aktien Fonds

## Management style

This fund aims to outperform the MSCI Emerging Europe 10/40 index through stock selection and within a 4-6% tracking error.

From May 2011, the portfolio has been constructed from the bottom up, with 75% of the ideas coming from the team's traditional growth-oriented, fundamental analysis and 25% from a quantitative screen.

The quant screen applies a mix of value and momentum criteria to the 60 largest companies in the benchmark to create two parallel sub-portfolios, each containing no more than 15 stocks and each representing 12.5% of the fund. The difference between the two sub-funds is in their timing and execution, one lagging the other by three months. Stock overlaps are possible; the two sub-portfolios will share between 15 and 30 names, representing 25% of the overall fund. Re-balancing is semi-annual.

The remaining 75% of the fund is managed at the team's discretion using its traditional Garp approach to reduce a universe of around 120 companies to 50-60 names, thus giving an overall fund portfolio of 65-90 names. The emphasis is on determining each company's true profitability and whether that is sustainable. A range of sector-specific multiple comparisons are employed, including EV/Ebitda, price/earnings and price/cashflow ratios. DCF analysis is a key element of the process, as it allows the comparison of stocks across countries and sectors. Stocks are bought on an 18- to 24-month outlook and reassessed when target prices are met, fundamentals change or when they underperform.

Despite the changes to the approach, risk constraints are unchanged - active stock weights can reach 7% on high-conviction names and 3.5% for less liquid stocks, but are more typically 3% and 1.5%, respectively. For liquidity reasons most holdings are capitalised above €300m.

Cash can be taken to 15%, but is generally below 5%. Currency exposures are usually unhedged.

## Fund manager & team

Raiffeisen Capital Management has had a significant presence in Central & Eastern Europe since 1987. The CEE equity team in Vienna comprises Angelika Millendorfer (overall head of GEM equities), András Szálkai and Gregor Holek who have 26, 17 and 15 years' experience respectively. The broader GEM equity team includes these three plus four other fund managers who cover Asia and Latin America and a more junior assistant fund manager.

As of April 2013, the team was responsible for €2.1bn.

Angelika Millendorfer - PhD economics (Vienna University), spent eight years as an analyst/fund manager at Bank Austria, before joining Raiffeisen in 1996. Since 2002, she has led RCM's emerging Europe team and is now responsible for global emerging markets.

Gregor Holek - masters in economics (Vienna University), CEFA, began his career in 1998 at Commerzbank. He moved to Raiffeisen in 1999 and joined this team in July 2005.



Latest grading issued July 2013

## Investment style

	Value	Blend	Growth
Large-cap			
Mid-cap			
Small-cap			

## Portfolio characteristics (1 May 2013)

No. of holdings	70
% in top 10	49.5
Turnover ratio (%)	51

Source: Raiffeisen Capital Management

## Risk characteristics

	3 years	5 years
Worst month (%)	-17.7	-35.1
Volatility	28.6	37.4
Correlation vs index	0.9	0.9
Beta vs index	0.9	1.0

## Sector allocation (%)

Consumer discretionary	2.3
Consumer staples	6.4
Energy	35.8
Financials	30.0
Healthcare	1.8
Industrials	3.6
Materials	8.8
Telecoms	5.1
Utilities	5.0
Cash	1.2

Source: Raiffeisen Capital Management

## Calendar-year performance

	2009		2010		2011		2012		Year to 30/04/2013	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund share class	97.5	81/337	18.2	150/354	-26.0	97/381	28.7	60/403	-3.3	304/441
Index**	90.7		19.9		-24.9		23.5		-3.0	
Median	87.8		17.4		-28.6		22.9		-2.1	

\*\* S&P/IFCI Europe TR

Fund benchmark: MSCI Emerging Europe 10/40

Share class screened: AT0000936513 (A)

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## Grading Process

To qualify for an interview and potential grading, a fund must have a minimum two-year performance track record (three years for funds-of-hedge-funds). New funds, funds with less than two years' performance record and specialist funds can be analysed and included providing independent verifiable performance data is supplied.

The starting point for a grading is an initial quantitative screen based on performance data obtained from Lipper Inc or elsewhere. For long-only funds, discrete annual performance comparisons are made, as opposed to cumulative returns over a three-year period. Relative performance of funds within each sector is ranked by decile.

This quantitative screen captures approximately the top 20% of funds in each sector, depending on the size of the sector. For funds-of-hedge-funds the screen is based on the fund's risk/reward objective.

For more information on the fund grading process please visit our website at [www.funds-info.standardandpoors.com](http://www.funds-info.standardandpoors.com).

## Symbols and Definitions

### Active funds

#### Grading bands for long-only funds

Platinum	The fund demonstrates the highest standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.
Gold	The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.
Silver	The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

#### Grading bands for Fund-of-hedge-funds / Absolute return / Specialist funds

Platinum	The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.
Gold	The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.
Silver	The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

#### Grading bands for Ucits III flexible beta funds

Platinum	The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
Gold	The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
Silver	The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

### Bond gradings

V	Bond fund volatility gradings of V1 to V6 reflect S&P Capital IQ's current opinion of a fund's sensitivity to changing market conditions. A volatility grading evaluates a fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For the V1 to V4 categories, risk is considered relative to a portfolio composed of government securities denominated in the base currency of the fund.
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### Absolute return gradings

N	The N grading is S&P Capital IQ's indication of a fund's potential capital stability in normal markets. It is a qualitative grading but is based on annualised weekly downside deviation. N1 is the most stable, and N9 the least stable grading.
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## Symbols and Definitions (continued)

### Passive funds

Platinum	The fund demonstrates the highest standards of quality based on its investment process, risk management and consistency of performance as compared to its benchmark index and other passive funds with a similar benchmark.
Gold	The fund demonstrates very high standards of quality based on its investment process, risk management and consistency of performance as compared to its benchmark index and other passive funds with a similar benchmark.
Silver	The fund demonstrates high standards of quality in its sector based on its investment process, risk management and consistency of performance as compared to its benchmark index and other passive funds with a similar benchmark.

### Applicable to both active and passive funds

Bronze	A previously graded fund where a newly appointed fund manager or team does not yet have the required 12 months' relevant investment management experience to achieve a Silver grading or higher.
Grading On Hold	A grading is placed On Hold when a significant change occurs at the fund manager or fund management team level and S&P Capital IQ has not yet had the opportunity to evaluate the impact on the qualitative appraisal.
Grading Removed	A previously graded fund is classified Grading Removed when a significant change occurs at the fund manager or fund management team level sufficient for the fund to no longer meet the standards to achieve a grading.
LTG recognition	A long-term grading (LTG) denotes a fund that has achieved an S&P Capital IQ fund grading at Platinum, Gold or Silver level in each of the last five or 10 consecutive years.

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