Raiffeisen-Russland-Aktien

Austria-domiciled open-ended investment fund

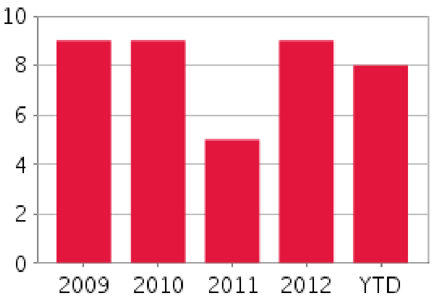
S&P CAPITAL IQ **Gold** FUND GRADING

Latest grading issued July 2013

Fund profile

Launch date	May 2008
Manager location	Vienna
Sector	Emerging markets equities
Peer group	Russian equities
Fund benchmark	MSCI Russia 10/40
Fund size	€84.9m (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
Fund share class	-12.0%
S&P Capital IQ peer median	-15.4%
Index**	8.7%
Fund share class rank	54/167
Volatility-adjusted ranking	58/167

*** S&P/IFCI Russia USD*

Fund manager/adviser: Raiffeisen Capital Management
Named portfolio manager/adviser(s): Angelika Millendorfer (since launch), Gregor Holek (since launch)
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)

This fund continues to be managed using a highly collegial approach that combines the expertise of two Raiffeisen Capital Management (RCM) teams.

About 80% of the portfolio is populated with large- and mid-cap ideas from the Vienna-based team headed by Angelika Millendorfer, who, with over 25 years' investment experience (including 16 years focusing on the Central and Eastern European markets), is one of the most experienced managers in our review. She is assisted by Gregor Holek, who has over 15 years' relevant experience and also covers Turkish names for the team. The two have worked together since Holek joined RCM in July 2005.

Millendorfer and Holek adopt an approach that is Garp-based and 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.

The remainder of the portfolio is invested in small-caps and managed on advice from RCM's Moscow-based team of six headed by local CIO Igor Kobzar. Although experience levels are far less than those of Millendorfer and Holek, the team has been stable for the past couple of years and is well positioned to take advantage of smaller, more domestically oriented opportunities. Millendorfer does have a power of veto over the ideas presented by the team - this was recently used when she decided against participating in the IPO of a small-cap oil exploration and production stock.

The final portfolio holds in the region of 40-50 stocks, but given that the Vienna team has a market-cap cut-off of €5bn and the Moscow team can go up as high as €7bn, there is some commonality of stocks in both sub-portfolios. Current examples include the largest active bets, Phosagro, M.video and E.ON Russia.

To permit suitably sized investments into areas such as IT, industrials and consumer discretionary, none of which are currently represented in the MSCI Russia 10/40 benchmark index, the fund has a fairly accommodating tracking error range of 8-16%. Despite this, Millendorfer does not take on excessive risk and manages the fund within active stock weights of up to 7% for larger names and 3% for smaller, less liquid ones.

At review, the fund held overweights in consumer staples (index +6%) and materials (+3%) while IT, industrials and consumer discretionary were all held at around 4%. Underweights were seen in the large index areas of energy (-13%), telecoms (-8%) and utilities (-5%).

Returns over the life of the fund have generally been strong within the context of our peer group. With the exception of 2011, when the fund lagged our median by only 30bps, each full calendar year has been in the top quintile; while the three-year cumulative number to our end-April cut-off is in the top third.

The effective partnership between the Vienna and Moscow teams, coupled with a robust and consistent track record, supports the fund's upgrade to an S&P Capital IQ Gold grading.

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Raiffeisen-Russland-Aktien

Management style

This fund aims for long-term capital appreciation from Russian and CIS equities. Performance success is measured against peers and the MSCI Russia 10/40 index.

The approach is bottom-up and combines two sub-portfolios. Angelika Millendorfer and Gregor Holek manage the fund's large-/mid-cap exposure from Vienna and delegate 20% of the fund to the Raiffeisen Capital team in Moscow to invest in smaller companies. The Vienna team defines its universe as companies capitalised above $3bn, whereas Moscow defines small-caps as sub-$5bn companies, thus overlap can occur, but the final decision on all investments rests with Millendorfer as lead manager.

Stock selection focuses on determining a company's true profitability and whether it is sustainable. A range of multiple comparisons are employed - EV/Ebitda, P/E and price/cashflow ratios - along with DCF analysis and various qualitative assessments of reporting transparency, management quality, corporate governance, etc. Input on potential legal and political risk is provided by the team in Moscow which is better placed to incorporate more top-down and macroeconomic considerations into its research than the Vienna team.

Stocks are bought on an 18- to 24-month outlook, targeting a total of 40-50 holdings, which are reassessed when target prices are met, fundamentals change or when they underperform. Portfolio positioning can deviate significantly from benchmark weights subject to active stock weights of up to 7%, restricted to 3% for low-liquidity names. Turnover is low, typically around 30% a year, of which a significant portion comes from trading existing positions.

The fund is typically more broadly invested than its benchmark which has limited exposure to consumer discretionary, healthcare and IT stocks. Given the uncorrelated nature of some of the small-cap holdings, the fund's tracking error is quite high (the permitted range is 8-16%), although this often leads to a sub-market beta.

The fund is run fully invested.

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 junior assistant fund manager.

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

Input on the small-cap element is provided by Raiffeisen Capital's six-strong team in Moscow, which is led by Igor Kobzar. With assets under management of over €300m across a broad range of funds, the Moscow team is the third-largest player in the Russian open-ended funds market.

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.

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Investment style

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

Portfolio characteristics (1 May 2013)

No. of holdings	49
% in top 10	52.5
Turnover ratio (%)	53.5

Source: Raiffeisen Capital Management

Risk characteristics

	3 years
Worst month (%)	-19.6
Volatility	29.3
Correlation vs index	0.9
Beta vs index	0.9

Sector allocation (%)

Consumer discretionary	4.6
Consumer staples	10.9
Energy	28.6
Financials	13.7
Healthcare	1.7
IT	3.9
Industrials	3.6
Materials	17.0
Telecoms	9.9
Utilities	3.1
Cash	3.0

Source: Raiffeisen Capital Management

Calendar-year performance

	2009		2010		2011		2012		Year to 30/04/2013	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund share class	176.7	17/146	34.3	29/163	-29.2	93/177	16.5	36/199	-4.4	44/208
Index**	105.6		23.3		-21.5		11.8		-5.6	
Median	146.7		27.5		-28.9		12.0		-6.1	

*** S&P/IFCI Russia USD*
Fund benchmark: MSCI Russia 10/40
Share class screened: AT0000A07FQ5 (A Inc)

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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.

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.

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.

Continued on next page

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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