



RCP & Partners GmbH

Risk rating of asset managers: the investor's measure of trust

ERSTE-SPARINVEST

Kapitalanlagegesellschaft mbH (ESK)



Fiduciary Rating	2002-08-09		Previous Rating	
Business Rating	AA2-	Very good	○	○
Investment Rating	3-	Very good	○	○
Outlook	↗	Positive	○	○
Asset Classes	Equities		○	
Geographic Universe	Austria, Central and Eastern Europe		○	
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Business Rating	Fiduciary Rating	Investment Rating	
Institutional Grade	AAA	Excellent	1
	AA1		2
	AA2	Very good	3
	A1		4
	A2		5
	A3	Good	6
BBB	7		
Sub-Institutional Grade	BB1	Fair	8
	BB2		9
	B1	Unsatisfactory	10
Outlook			
↗ Positive	→ Neutral	↘ Negative	

Assets under Management

2002-04-30	EUR m	Share	Portfolios
Total ¹	15 430	100.0%	176
Institutional funds ²	4 822	31.3%	90
Mutual funds	10 608	68.7%	86

¹ incl. funds of funds, but excl. domestic sub-funds within funds of funds

² Spezialfonds + Grob-anlegerfonds (institutional mutual funds) according to OeKB category

The rating confines itself to the *institutional* and *retail* business of **ERSTE-SPARINVEST KAG (ESK)**, the asset management subsidiary of **Erste Bank (EBS)**, both located in Vienna, Austria.

The *Business Rating* takes account of the company as a whole, whereas the *Investment Rating* only considers and evaluates the asset classes **Austrian Equities** and **Eastern European Equities**.

Strengths	Weaknesses
<ul style="list-style-type: none"> ✗ financial strength, market position (especially in the retail market), brand awareness, and distribution network in Austria ✗ embedded in the network of Erste Bank Group with strong visibility in Central and Eastern Europe ✗ investment know-how Central and Eastern Europe ✗ new organisational structure with clear separation of functions 	<ul style="list-style-type: none"> ✗ client base mainly concentrated in Austria ✗ institutional sales requires Erste Bank's sales to be involved ✗ no certified PPS-compliant performance data available as yet
Opportunities	Threats
<ul style="list-style-type: none"> ✗ implementation and verification of GIPS ✗ substitution of sub-funds by ESK products within third-party funds of funds ✗ development of the proprietary database FMP towards a universal data pool ✗ increasing sales of retail funds in Eastern Europe 	<ul style="list-style-type: none"> ✗ increasing competition by domestic and foreign companies in Austria ✗ sales and distribution depend on Erste Bank Group ✗ big share of ESK funds complicates future sales within client base of Erste Bank Group

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Business Rating	RCP Score	Investment Rating	RCP Score
Financial Strength	☆☆☆☆	Investment Process	☆☆☆☆
Business Management	☆☆☆☆	Research	☆☆☆☆
Administration and Risk Management	☆☆☆☆	People	☆☆☆☆
Client Care	☆☆☆☆	Performance	☆☆☆☆
Checks and Balances	☆☆☆☆	Client Diversity and Stability	☆☆☆
Coherence	☆☆☆☆	RCP Score: Minimum = ☆, Maximum = ☆☆☆☆☆	

Business Rating

ESK is part of Erste Bank Group — which consists of the Austrian savings banks (Sparkassen), their lead institute Erste Bank (EBS), and other financial services providers — and thereby possesses a known brand and a wide distribution network in Austria and Eastern Europe (“extended home market” of EBS). Similar to other banks, ESK has no exclusive sales agreement with neither EBS nor the savings banks and therefore has to continuously prove the merits of its products and services.

Measured by assets under management, ESK is the second largest asset manager in Austria, market leader for mutual funds (more than 20% market share), and third largest provider in the institutional business. In the area of institutional clients ESK pursues significant growth in terms of market share.

The economic fundamentals of the company are sound, as well as its development.

Due to the strong growth in recent years the ESK team is, on average, relatively young. However, executives and senior managers command long standing experience in the investment industry. Education of staff in general, and additional investment qualifications in particular, are taken specific care of.

As far as software is concerned, front office and back office are dominated by proprietary IT solutions developed in-house, some of which are provided to other asset managers as well. The database system FMP, a key application which was developed in-house, currently undergoes comprehensive improvements.

Particularly with the restructuring at the end of 2001, the organisation has gained clarity and stringency. Moreover, responsibilities for all senior manager and all portfolio managers are clearly defined.

The compliance rules are based on the Austrian Standard Compliance Code (SCC); they correspond to international practice and are being monitored by the compliance office of Erste Bank, supported by a compliance commissioner in ESK.

Investment Rating

The investment process for Austrian and Eastern European equities, which is scrutinised here, follows a “bottom-up” approach. Outperformance is supposed to be achieved by stock selection. The valuation approach is based on the EVA concept, drawing on historical and expected cash flows of approximately 200 companies observed. Derived from these data, cash flow yield serves as a key indicator in order to rank the stocks in question. Portfolio construction is based on these rankings, taking also qualitative and technical arguments into account.

Due to special market conditions (liquidity, data availability, etc.), portfolio managers are granted a higher degree of discretion to take decisions as compared to other equity mandates in ESK. However, in the course of the evolution of ESK’s investment processes, “top-down” approaches will become more important also in these asset classes.

The team for Austrian and Eastern European equities consists of four portfolio managers and one analyst. They can also draw on research resources of Erste Bank (13 analysts) and ESK’s sister company ISCS in Prague (four portfolio managers).

Exclusive custodian for ESK is Erste Bank which also holds all cash deposits. Large part of trading is also executed through Erste Bank. A number of other brokers are being used as well.

Those Austrian und Eastern European funds for which a history of several years is available, have outperformed their respective benchmarks significantly since inception, even taking into account risk measures.

Performance is currently measured according to OeKB standards. The introduction of Global Investment Performance Standards (GIPS) with third party verification is due for this year.

Outlook

In view of the foreseeable functional extensions in the IT area and the introduction of GIPS we grade the Outlook as Positive.

Company	ESK — ERSTE-SPARINVEST Kapitalanlagegesellschaft mbH
Address	Habsburgergasse 1a A-1010 Vienna
Phone	+43-5-0100-19882
Internet	www.sparinvest.com
Founded	1985 ¹
Employees	80
Services	Management of institutional and mutual funds according to Investmentfondsgesetz.

¹ ESK was founded in 1985 as DIE ERSTE KAG and merged in 1998 with SparInvest KAG, itself founded in 1965.