

# **ESPA BOND INTERNATIONAL**

**Mutual Fund pursuant to § 20 InvFG**

Annual Report 2010/11

## Contents

<b>General Information about the Investment Firm .....</b>	<b>2</b>
<b>Development of the Fund .....</b>	<b>3</b>
<b>Asset Allocation .....</b>	<b>4</b>
<b>Comparative Overview (in EUR) .....</b>	<b>5</b>
<b>Dividend Disbursement/Payment .....</b>	<b>5</b>
<b>Income Statement and Changes in Fund Assets .....</b>	<b>6</b>
1. Value Development over the Financial Year (Fund Performance).....	6
2. Fund Result.....	6
3. Changes in Fund Assets.....	7
4. Source of the Fund Result .....	8
5. Use of the Fund Result.....	8
<b>Fund Portfolio as of 31 July 2011 .....</b>	<b>9</b>
<b>Unqualified Auditor's Opinion .....</b>	<b>16</b>
<b>Fund Terms and Conditions.....</b>	<b>18</b>
General Terms and Conditions .....	18
Special Fund Terms and Conditions.....	20
Annex to the Special Fund Terms and Conditions.....	24

## General Information about the Investment Firm

<b>The company</b>	ERSTE-SPARINVEST Kapitalanlagegesellschaft m. b. H. Habsburgergasse 1a, A-1010 Vienna Telephone: +43 05 0100-19881, Fax: +43 05 0100-17102
<b>Nominal capital</b>	EUR 4.50 million
<b>Shareholders</b>	Erste Asset Management GmbH (81.42%) DekaBank Deutsche Girozentrale (2.87%) Kärntner Sparkasse Aktiengesellschaft (2.87%) NÖ-Sparkassen Beteiligungsgesellschaft m. b. H. (1.37%) Salzburger Sparkasse Bank Aktiengesellschaft (2.87%) Sieben Tiroler Sparkassen Beteiligungsgesellschaft m. b. H. (2.87%) Steiermärkische Bank und Sparkassen Aktiengesellschaft (5.73%)
<b>Supervisory Board</b>	Wolfgang TRAINDL, Mag. (Chairman) Gerhard FABISCH, Mag. Dr. (Deputy Chairman) Wilhelm SCHULTZE, DI (Deputy Chairman) Christian AICHINGER, Dr. Alois HOCHEGGER, Mag. (until 23.2.2011) Michael MALZER, Mag. Dr. (until 23.2.2011) Birte QUITT, Dipl. BW. (FH) (from 24.2.2011) Franz RATZ Gabriele SEMMELROCK-WERZER (from 24.2.2011) Reinhard WALT, Mag. (from 7.9.2010) Appointed by the Works Council: Regina HABERHAUER, Mag. (FH) Dieter KERSCHBAUM, Mag. Gerhard RAMBERGER, Mag. Herbert STEINDORFER
<b>Managing directors</b>	Heinz BEDNAR, Mag. Harald GASSER, Mag. Franz GSCHIEGL, Dr.
<b>Prokuristen (proxies)</b>	Achim ARNHOF, Mag. (from 24.2.2011) Winfried BUCHBAUER, Mag. Harald EGGER, Mag. Oskar ENTMAYR Dietmar JAROSCH, Dr. Günther MANDL Christian SCHÖN Paul A. SEVERIN, Mag. Jürgen SINGER, Mag.
<b>State commissioners</b>	Erwin GRUBER Michael MANHARD, HR Dr.
<b>Auditor</b>	ERNST & YOUNG WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT MBH
<b>Custodian bank</b>	Erste Group Bank AG

## Dear Shareholder,

We are pleased to present you the following annual report for the ESPA BOND INTERNATIONAL mutual fund pursuant to § 20 InvFG for the period from 1 August 2010 to 31 July 2011.

## Development of the Fund

### Market report

The positive economic signals initially gained momentum around the world, although there were significant differences from region to region. Particularly towards the end of the reporting period, the economy in many developed regions showed signs of a slowdown, while the emerging markets continued to post positive growth figures or offered signs of overheating. In August 2010, China was the first country to overtake Japan as the world's second-largest national economy. However, because the emerging markets generated massive trade surpluses, they did not provide economic stimulus for the developed countries. Unemployment, subdued consumption and more conservative lending on the part of banks all put a damper on developments here to varying degrees. The forced budget consolidation along with a correspondingly restrictive fiscal policy placed an additional burden on nearly all of the developed countries. The sluggish economic upswing in the US continued, and investment growth among companies here accelerated considerably. The sentiment indicators, private consumer spending and the labour market also saw slight improvements in 2011. Nevertheless, the unemployment rate was well above the potential level. The real estate market remained a problem area. In recent months, many of the economic figures were once again disappointing. Japan has been unable to produce any substantial growth rates for quite some time. The country was severely impacted by the earthquake and the nuclear power plant disaster. Although confidence in the country's economy remained intact for the most part, there was a brief dramatic drop in industrial production, but this was compensated for to an astonishing degree. In Europe, particularly the highly indebted countries fought against stagnation, while Germany continued to play the role of the economic powerhouse. Despite good domestic data, Germany's economic growth remained very export dependent. France, the Netherlands and Austria also delivered pleasing figures.

The financial problems of the highly indebted Eurozone countries persisted. Ireland had to rescue its major banks from failing, which caused the country's budget deficit for 2010 to shoot up to 32.4% of GDP. The island nation had no choice but to make use of the support provided by the European Economic and Monetary Union (EMU) and the International Monetary Fund (IMF) to prevent itself from going bankrupt. After Portugal also had to rely on this aid, the matter of Greece's insolvency once again returned to the focus of investors. Nevertheless, an agreement was reached for an additional EUR 108 billion in aid, a debt restructuring and a voluntary acceptance of cuts by large private investors (especially banks) of around 20%. The EU decided to equip the existing permanent euro stability mechanism with additional deployable rescue funds (guarantees and direct payments). However, the long coordination process with contradictory political statements shook the confidence of investors once again. The strong increase in risk aversion manifested itself particularly in a flight to high-quality AAA bonds. This then put heavy pressure on Italian and Spanish government bonds. The question of the integration or disintegration of the European Economic and Monetary Union (EMU) came to a head particularly in July 2011. In contrast to the US Federal Reserve Bank, the European Central Bank (ECB) saw the purchase of bonds from government and private issuers as an undesirable, short-term emergency measure. Therefore, purchases by the ECB only amounted to a fraction of the volume purchased by the Fed. Nevertheless, the ECB was forced to intervene more intensely in the government bond markets in particular over the past few months. Due to the political bickering over the raising of the debt ceiling and the necessary consolidation of the national budget, the US's AAA credit rating was increasingly called into question.

The euro bond markets were very volatile due to the high level of uncertainty. Following a high of 3.2% in April, yields on ten-year German government bonds closed the period at 2.5%. The ECB's AAA EUR government bond yield curve shifted upward in annual comparison, with the short end seeing the most movement. While the financial sector – insofar as it was involved in the exposed countries – reacted similarly to their government paper, the risk premiums for other corporate bonds declined towards pre-crisis levels and became quite stable after that. The function of US Treasuries as a "safe haven" and purchases by the Fed along with the gloomy economic prospects led to relatively low

yields here, for example, 2.8% for ten-year bonds recently. Yields on ten-year Japanese government bonds fell from a high in February of 1.4% to 1.1% at the end of July.

The euro was able to constantly gain ground on the dollar until the end of April and then moved sideways within a range of 1.48 to 1.40. The Swiss franc became unbelievably strong and hit 1.13 at the end of July, which created virtually unsolvable problems for the Swiss export sector. Following past increases in value, the Norwegian, Swedish and Danish crowns trended sideways in recent months. Although the Japanese yen declined as a result of the earthquake disaster, it gained back a great deal of strength recently and stood at 110.50. Directly after the disaster, the important central banks stabilised Japan's currency through an extensive, internationally coordinated intervention.

Along with prices for agricultural products and raw materials, energy prices increased in the initial months of the reporting period, due in large part to the political situation in the Middle East and the more critical stance towards nuclear power. As a result, the issue of inflation increasingly moved into the spotlight. However, the American and Japanese central banks left the key interest rates at the extremely low level of 0.00% to 0.25% and 0.10%, respectively. Consumer price growth for the Eurozone came in at 2.7% in June, which is considerably higher than the ECB's stability target of 2%. In April and in June, the ECB raised the main refinancing rate in two steps each amounting to 0.25 percentage points to 1.50%. It has only very cautiously started to withdraw its measures for the unlimited allocation of longer-term refinancing. In contrast to the major commercial banks that have largely overcome the financial market problems, the banking systems of the ailing Eurozone countries still urgently need these measures. Money market interest rates have increased considerably. The three-month EURIBOR started the reporting period at 0.90% and finished at 1.61%.

### Investment policy

A key focus in the management of the fund's portfolio (in terms of orientation) is ensuring the highest possible issuer ratings when selecting assets. Interest rate derivatives were used to actively manage the fund's duration during the reporting period. Investment-grade corporate bonds were overweighted while Eurozone government bond holdings were reduced. To minimise the currency risk and therefore the volatility of the fund, currency hedges are temporarily being held for the foreign-currency bonds. Interest rate futures are being used to manage the fund's duration. Securities lending transactions may be performed.

## Asset Allocation

	31 July 2011		31 July 2010	
	EUR millions	%	EUR millions	%
Bonds denominated in				
GBP	2.8	4.10	4.1	4.78
EUR	7.3	10.55	19.6	22.69
JPY	13.4	19.33	14.7	16.95
NOK	1.9	2.81	-	-
SEK	1.8	2.53	-	-
Investment certificates denominated in				
EUR	26.2	37.89	24.2	27.99
USD	15.6	22.52	22.2	25.64
Securities	69.0	99.74	84.8	98.05
Financial futures	0.0	0.04	0.0	0.02
Forward exchange agreements	-	0.3	-	1.1
Cash in banks	0.2	0.35	1.0	1.11
Interest entitlements	0.2	0.25	1.8	2.03
Other deferred items	-	0.0	-	-
<b>Fund assets</b>	<b>69.1</b>	<b>100.00</b>	<b>86.5</b>	<b>100.00</b>

## Comparative Overview (in EUR)

Financial year	Fund assets	Value change in per cent 1)
2005/06	175,890,609.16	- 3.97 2)
2006/07	131,795,037.55	- 2.06 2)
2007/08	98,389,348.01	- 2.49 2)
2008/09	86,738,230.52	+ 15.91 2)
2009/10	86,497,965.41	+ 13.49 2)
2010/11	69,141,093.30	- 2.66 2)

Financial year	Dividend shares		Non-dividend shares			KESt-exempt non-dividend shares	
	Calculated value per share	Dividend disbursement	Calculated value per share	Reinvested earnings	Payout pursuant to § 13 InvFG	Calculated value per share	Reinvested KESt-exempt earnings
2005/06	11.27	0.55	16.38	0.67	0.13	16.38	0.80
2006/07	10.51	0.50	15.91	0.63	0.13	16.04	0.76
2007/08	9.76	0.50	15.40	0.66	0.13	15.65	0.80
2008/09	10.76	0.50	17.70	0.68	0.14	18.14	0.84
2009/10	11.65	0.50	19.93	0.73	0.13	20.57	0.88
2010/11	10.85	0.40	19.27	6.53	0.12	20.03	6.91

1) Assuming the reinvestment of all paid dividends at their nominal value on the day of disbursement.

2) The changes in the value of non-dividend shares and KESt-exempt non-dividend shares vary slightly from those of dividend shares because of rounding effects.

## Disbursement/Payment

A dividend of EUR 0.40 per share was paid for the **dividend shares** for the financial year 2010/11, or a total of EUR 2,163,688.80 for 5,409,222 dividend shares.

The coupon-paying bank is obligated to withhold capital gains tax in the amount of EUR 0.07 per share if the respective investor is not exempt from the payment of this tax. This dividend payment will be effected and credited on Monday, 3 October 2011, at

Erste Bank der oesterreichischen Sparkassen Aktiengesellschaft, Vienna, and its branches, and  
at all Austrian Sparkassen banks and branches.

and the respective bank managing the Shareholder's securities account.

An amount of EUR 6.53 per share will be reinvested for the **non-dividend shares** for the financial year 2010/11, which represents a total of EUR 3,506,354.19 for 536,923 non-dividend shares.

Pursuant to § 13 of the Austrian Investment Fund Act (InvFG), the applicable capital gains tax on the profit for the non-dividend shares in the amount of EUR 0.12 per share must be paid out. This amounts to a total of EUR 64,430.76 for 536,923 non-dividend shares. This payment will also be effected on Monday, 3 October 2011.

Pursuant to the penultimate sentence of § 13 of the Austrian Investment Fund Act, no capital gains tax will be paid for **KESt-exempt non-dividend shares**. An amount of EUR 6.91 per share will be reinvested for the KESt-exempt non-dividend shares for the financial year 2010/11, which represents a total of EUR 40,543.56 for 5,867 KESt-exempt non-dividend shares.

## Income Statement and Changes in Fund Assets

### 1. Value Development over the Financial Year (Fund Performance)

Calculated according to the OeKB method: per share in the fund currency (EUR) not including the issue premium	Dividend shares	Non-dividend shares	KESt-exempt non-dividend shares
Share value at the beginning of the reporting period	11.65	19.93	20.57
Disbursement on 01.10.2010 (corresponds to roughly 0.045 shares) 1)	0.50		
Payment on 01.10.2010 (corresponds to roughly 0.0066 shares) 1)		0.13	
Share value at the end of the reporting period	10.85	19.27	20.03
Total value including (notional) shares gained through dividend disbursement/payment	11.34	19.40	20.03
Net earnings per share	- 0.31	- 0.53	- 0.54
Value development of one share in the period 2)	<b>- 2.66 %</b>	<b>- 2.66 %</b>	<b>- 2.63 %</b>

### 2. Fund Result

#### a. Realised fund result

##### Ordinary fund result

##### Income (without profit or loss from price changes)

Interest income (excluding income adjustment)	2,029,394.47	
Dividend income	1,259.78	
Other income 3)	88.33	
Total income (without profit or loss from price changes)		2,030,742.58

Interest paid - 9,665.56

##### Expenses

Fees paid to Investment Firm	- 179,028.94	
Costs for the financial auditor	- 10,753.00	
Publication costs	- 7,209.66	
Securities account fees	- 12,007.92	
Custodian bank fees	- 14,325.42	
Costs for the external consultant	0.00	
Total expenses		- 223,324.94

Compensation for management costs from sub-funds 4) 0.00

**Ordinary fund result (excluding income adjustment) 1,797,752.08**

##### Realised profit or loss from price changes 5) 6)

Realised gains 7)	3,748,418.80	
Realised losses 8)	- 3,516,370.60	

**Realised profit or loss from price changes (excluding income adjustment) 232,048.20**

**Realised fund result (excluding income adjustment) 2,029,800.28**

<b>Carryover: realised fund result (excluding income adjustment)</b>	<b>2,029,800.28</b>
<b>b. Unrealised profit or loss from price changes 5) 6)</b>	
Changes in the unrealised profit or loss from price changes	- <b>3,966,622.58</b>
<b>Result for the reporting period</b>	<b>- 1,936,822.30</b>
<b>c. Income adjustment</b>	
Income adjustment for income in the period	- <b>300,306.68</b>
Income adjustment for profit carried forward from dividend shares	<b>0.00</b>
<b>Overall fund result</b>	<b>- 2,237,128.98</b>

### **3. Changes in Fund Assets**

<b>Fund assets at the beginning of the reporting period 9)</b>	<b>86,497,965.41</b>
<b>Disbursement/payment</b>	
Disbursement (for dividend shares) on 01.10.2010	- 2,960,589.00
Payment (for non-dividend shares) on 01.10.2010	- <u>74,268.61</u>
<b>Issue and return of shares</b>	- <b>12,084,885.52</b>
<b>Overall fund result</b>	
(The fund result is shown in detail under 2)	- <b>2,237,128.98</b>
<b>Fund assets at the end of the reporting period 10)</b>	<b><u>69,141,093.30</u></b>

#### **4. Source of the Fund Result**

Realised fund result	2,047,565.67
Income adjustment for income in the period	- 300,433.85
Income adjustment for profit carried forward from dividend shares	0.00
Profit carried forward from prior year	18,649,107.93
Costs and losses covered by fund assets	3,516,370.60
<b>Distributable/retainable fund result</b>	<b><u>23,912,610.35</u></b>

#### **5. Use of the Fund Result**

Disbursement on 03.10.2011 for 5,409,222 dividend shares at EUR 0.40 each	2,163,688.80
Reinvestment for 5,409,222 dividend shares at EUR 0.00 each	0.00
Payment on 03.10.2011 for 536,923 non-dividend shares at EUR 0.12 each	64,430.76
Reinvestment for 536,923 non-dividend shares at EUR 6.53 each	3,506,354.19
Reinvestment for 5,867 KESt-exempt non-dividend shares at EUR 6.91 each	40,543.56
Profit carried forward for dividend shares	18,137,593.04
<b>Total use</b>	<b><u>23,912,610.35</u></b>

- 1) Calculated value on 29.09.2010 (ex-date): One dividend share EUR 11.10, one non-dividend share EUR 19.71.
- 2) The changes in the value of dividend shares and non-dividend shares vary slightly from those of KESt-exempt non-dividend shares because of rounding effects.
- 3) The earnings reported under this item can be attributed entirely to lending fees from securities lending transactions.
- 4) Reimbursements (in the sense of commissions) paid by third parties are forwarded to the Investment Fund after deduction of any associated costs. Erste Bank der oesterreichischen Sparkassen AG receives 20% of the calculated commissions to cover administrative costs.
- 5) Realised profits and losses are not calculated precisely for the specific periods, which means that they, as is the case for the changes in the unrealised profit or loss, are not necessarily congruent with the changes in the value of the fund in the reporting year.
- 6) Total profit or loss from price changes without income adjustment (realised profit or loss from price changes, without income adjustment, plus changes in the unrealised profit or loss): EUR -3,734,574.38.
- 7) Thereof profits from transactions with derivative financial instruments: EUR 665,061.61.
- 8) Thereof losses from transactions with derivative financial instruments: EUR -2,451,311.25.
- 9) Shares outstanding at the beginning of the reporting period: 6,416,397 dividend shares, 580,003 non-dividend shares and 9,787 KESt-exempt non-dividend shares.
- 10) Shares outstanding at the end of the reporting period: 5,409,222 dividend shares, 536,923 non-dividend shares and 5,867 KESt-exempt non-dividend shares.

## Fund Portfolio as of 31 July 2011

(including changes in securities assets from 1 August 2010 to 31 July 2011)

Security designation	ISIN number	Interest rate	Purch./ additions	Sales/ disposals	Holding Shares/nominal (nom. in 1,000, rounded)	Price	Value in EUR	% share of fund assets
<b>Publicly traded securities</b>								
<b>Bonds denominated in EUR</b>								
<b>Issue country Belgium</b>								
BELGIQUE 04/35 44	BE0000304130	5.000000	0	0	50	104.709000	52,354.50	0.08
BELGIQUE 09-19 55	BE0000315243	4.000000	0	0	250	99.688000	249,220.00	0.36
Total							<u>301,574.50</u>	<u>0.44</u>
<b>Issue country Germany</b>								
GOVT.BOND.V. 10/42	DE0001135432	3.250000	1,600	0	1,600	97.583000	1,561,328.00	2.26
GOVT.BOND.V. 05/37	DE0001135275	4.000000	0	400	200	109.734000	219,468.00	0.32
GOVT.BOND.V. 09/20 INFL.LKD	DE0001030526	1.750000	1,000	600	400	111.229000	458,386.32	0.66
GOVT.BOND.V.98/07.28 II	DE0001135085	4.750000	0	0	300	118.227000	354,681.00	0.51
KRED.F.WIED.10/16 MTN	DE000A1EWEA4	1.556000	600	0	600	99.775000	598,650.00	0.87
Total							<u>3,192,513.32</u>	<u>4.62</u>
<b>Issue country France</b>								
REP. FSE 07-17 O.A.T.	FR0010415331	3.750000	0	150	200	106.547000	213,094.00	0.31
Total							<u>213,094.00</u>	<u>0.31</u>
<b>Issue country Italy</b>								
B.T.P. 06-21	IT0004009673 <sup>Intl</sup>	3.750000	0	300	150	86.338000	129,507.00	0.19
B.T.P. 07-17	IT0004164775	4.000000	0	0	300	94.658000	283,974.00	0.41
B.T.P. 07-18	IT0004273493	4.500000	0	0	100	94.987000	94,987.00	0.14
B.T.P. 08-23	IT0004356843	4.750000	0	0	150	91.104000	136,656.00	0.20
B.T.P. 2019 01.02	IT0003493258	4.250000	500	500	200	92.379000	184,758.00	0.27
Total							<u>829,882.00</u>	<u>1.20</u>
<b>Issue country Netherlands</b>								
NEDERLD 06-16	NL0000102283	4.000000	0	150	400	108.586000	434,344.00	0.63
Total							<u>434,344.00</u>	<u>0.63</u>
<b>Issue country Austria</b>								
AUSTRIA 03/18 MTN	AT0000385745	4.650000	0	0	150	111.208000	166,812.00	0.24
AUSTRIA 09/14	AT0000A0CL73	3.400000	0	700	200	104.608000	209,216.00	0.30
Total							<u>376,028.00</u>	<u>0.54</u>

## ESPA BOND INTERNATIONAL

Security designation	ISIN number	Interest rate	Purch./ additions	Sales/ disposals	Holding	Price	Value in EUR	% share of fund assets
			Shares/nominal (nom. in 1,000, rounded)					
<b>Issuer European Investment Bank</b>								
EIB EUR.INV.BK 04/20 MTN	XS0196448129	4.625000	0	0	600	110.434000	662,604.00	0.96
EIB EUR.INV.BK 10/19 MTN	XS0541909213	2.500000	300	0	300	95.336000	286,008.00	0.41
Total							948,612.00	1.37
Total bonds denominated in EUR							6,296,047.82	9.11
<b>Bonds denominated in JPY</b>								
<b>Issue country Japan</b>								
JAPAN 2020 308	JP1103081A65	1.300000	245,000	67,000	178,000	103.205000	1,656,162.29	2.40
JAPAN 2015 269	JP1102691548	1.300000	100,000	0	100,000	103.759000	935,422.75	1.35
JAPAN 2023 62	JP1200621363	0.800000	0	50,000	470,000	94.465000	4,002,680.62	5.79
Total							6,594,265.66	9.54
Total bonds denominated in JPY translated at a rate of 110.922040							6,594,265.66	9.54
Total publicly traded securities							12,890,313.48	18.64
<b>Investment certificates</b>								
<b>Investment certificates denominated in EUR</b>								
<b>Issue country Austria</b>								
ESPA BD GLOBAL-ALP.T	AT0000A05F50		7,951	10,384	27,506	101.860000	2,801,761.16	4.05
ESPA BOND EUR-HIGH YIEL.T	AT0000805684		9,720	700	9,020	115.780000	1,044,335.60	1.51
ESPA BOND EURO-ALPHA T	AT0000A03DF2		792	3,085	3,475	70.590000	245,300.25	0.35
ESPA BOND EURO-CORP. T	AT0000724224		0	35,020	18,600	137.380000	2,555,268.00	3.70
ESPA BOND LOCAL EMERG.T	AT0000A0AUF7		3,230	720	9,080	136.080000	1,235,606.40	1.79
ESPA BOND MORTGAGE T	AT0000700786		6,400	8,380	66,390	140.800000	9,347,712.00	13.52
ESPA BOND USA-CORP. T	AT0000675772		5,220	770	13,100	134.400000	1,760,640.00	2.55
ESPA BOND USA-HIGH YLD T	AT0000637491		27,300	1,370	30,720	142.280000	4,370,841.60	6.32
ESPA BOND YEN T	AT0000809157		20,500	710	27,640	70.780000	1,956,359.20	2.83
K 2000 T	AT0000646393		0	1,470	6,230	141.080000	878,928.40	1.27
Total							26,196,752.61	37.89
Total investment certificates denominated in EUR							26,196,752.61	37.89
<b>Investment certificates denominated in USD</b>								
<b>Issue country Austria</b>								
ESPA BD DOL. CORP. T(USD)	AT0000721535		0	17,010	51,690	146.090000	5,254,970.15	7.60
ESPA BOND DOLLAR A (DL)	AT0000982723		0	74,940	226,320	65.490000	10,314,333.19	14.92
Total							15,569,303.34	22.52
Total investment certificates denominated in USD translated at a rate of 1.437000							15,569,303.34	22.52
Total investment certificates							41,766,055.95	60.41

Security designation	ISIN number	Interest rate	Purch./ additions	Sales/ disposals	Holding Shares/nominal (nom. in 1,000, rounded)	Price	Value in EUR	% share of fund assets	
<b>Securities admitted to organised markets</b>									
<b>Bonds denominated in GBP</b>									
<b>Issue country Great Britain</b>									
LCR FINANCE 99/28 REGS	XS0094804126	4.500000	0	0	1,750	104.435000	2,087,700.29	3.02	
							Total	2,087,700.29	3.02
<b>Issuer European Investment Bank</b>									
EIB EUR.INV.BK 05/15 MTN	XS0223923870	4.375000	0	0	600	109.415000	749,915.18	1.08	
							Total	749,915.18	1.08
Total bonds denominated in GBP translated at a rate of 0.875419								2,837,615.47	4.10
<b>Bonds denominated in EUR</b>									
<b>Issuer European Investment Bank</b>									
EIB EUR.INV.BK 09/17 FLR	XS0441736625	1.863000	1,000	500	500	100.490000	502,450.00	0.73	
							Total	502,450.00	0.73
Total bonds denominated in EUR								502,450.00	0.73
<b>Bonds denominated in JPY</b>									
<b>Issue country Germany</b>									
LANDWIRT.R.BK 01/13YN MTN	XS0128165379	1.375000	0	50,000	350,000	101.946000	3,216,772.79	4.65	
							Total	3,216,772.79	4.65
<b>Issue country Japan</b>									
DEV.BK JAPAN 04/14 INTL	XS0193846325	1.600000	0	0	380,000	103.747000	3,554,195.36	5.14	
							Total	3,554,195.36	5.14
Total bonds denominated in JPY translated at a rate of 110.922040								6,770,968.15	9.79
<b>Bonds denominated in NOK</b>									
<b>Issue country Norway</b>									
NORWAY 02-13	N00010144843	6.500000	6,000	0	6,000	107.328000	830,499.95	1.20	
NORWAY 04-15	N00010226962	5.000000	4,000	0	4,000	108.886000	561,703.80	0.81	
NORWAY 10-21	N00010572878	3.750000	4,000	0	4,000	106.405000	548,905.21	0.79	
							Total	1,941,108.96	2.81
Total bonds denominated in NOK translated at a rate of 7.753980								1,941,108.96	2.81

## ESPA BOND INTERNATIONAL

Security designation	ISIN number	Interest rate	Purch./ additions	Sales/ disposals	Holding Shares/nominal (nom. in 1,000, rounded)	Price	Value in EUR	% share of fund assets
<b>Bonds denominated in SEK</b>								
<b>Issue country Sweden</b>								
SWEDEN 04-15 1049	SE0001250135	4.500000	7,000	0	7,000	108.907000	841,065.13	1.22
SWEDEN 05-16 1050	SE0001517699	3.000000	8,000	0	8,000	103.206000	910,900.05	1.32
Total							1,751,965.18	2.53
Total bonds denominated in SEK translated at a rate of 9.064090							1,751,965.18	2.53
Total securities admitted to organised markets							13,804,107.76	19.97

### Unlisted securities

#### Bonds denominated in EUR

##### Issue country Austria

DIE ERSTE OEST. SCP 11-16	AT0000A0NWN0	3.181000	500	0	500	99.747000	498,735.00	0.72
Total							498,735.00	0.72
Total bonds denominated in EUR							498,735.00	0.72
Total unlisted securities							498,735.00	0.72

### Unrealised result in EUR

#### Forward exchange agreements

##### Forward exchange agreements denominated in EUR

##### Issue country Austria

FXF NSPEST EUR/AUD 310811	FXF_NTX_3552765				332,570		10,534.98	0.02
FXF NSPEST EUR/CAD 310811	FXF_NTX_3552766				873,172		2,272.80	0.00
FXF NSPEST EUR/CHF 310811	FXF_NTX_3552788				569,801		48,818.66	0.07
FXF NSPEST EUR/GBP 310811	FXF_NTX_3552944				981,638		13,628.41	0.02
FXF NSPEST EUR/GBP 310811	FXF_NTX_3552944				271,124		989.30	0.00
FXF NSPEST EUR/JPY 310811	FXF_NTX_3552762				1,953,464		-76,996.49	-0.11
FXF NSPEST EUR/MXN 310811	FXF_NTX_3552793				282,435		-4,768.41	-0.01
FXF NSPEST EUR/NOK 310811	FXF_NTX_3552780				1,122,105		-11,871.61	-0.02
FXF NSPEST EUR/PLN 310811	FXF_NTX_3552847				225,875		-1,753.69	0.00
FXF NSPEST EUR/SEK 310811	FXF_NTX_3552773				223,769		3,219.03	0.00
FXF NSPEST EUR/USD 310811	FXF_NTX_3552754				14,214,296		-282,282.14	-0.41
Total							-298,209.16	-0.43
Total forward exchange agreements denominated in EUR							-298,209.16	-0.43

##### Forward exchange agreements denominated in CHF

##### Issue country Austria

FXF NSPEST CHF/HUF 080911	FXF_NTX_3552116				360,249		31,295.77	0.05
FXF NSPEST CHF/HUF 080911	FXF_NTX_3552792				339,751		6,484.89	0.01
Total							37,780.66	0.05
Total forward exchange agreements denominated in CHF translated at a rate of 1.132640							37,780.66	0.05
Total forward exchange agreements							-260,428.50	-0.38

Security designation	Holding	Unrealised result in EUR	% share of fund assets
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**Derivatives**

**Financial futures denominated in EUR**

**Issue country Germany**

EURO-BOBL FUTURE Sep11	20	53,000.00	0.08
EURO-BUND FUTURE Sep11	10	1,376.50	0.00
		<b>Total</b>	<b>54,376.50 0.08</b>
Total financial futures denominated in EUR		<b>54,376.50</b>	<b>0.08</b>

**Financial futures denominated in USD**

**Issue country USA**

US 10YR NOTE FUT Sep11	-10	-29,412.40	-0.04
US 2YR NOTE (CBT) Sep11	20	16,527.49	0.02
US 5YR NOTE (CBT) Sep11	-25	-31,886.07	-0.05
US LONG BOND(CBT) Sep11	5	15,576.07	0.02
		<b>Total</b>	<b>-29,194.91 -0.04</b>
Total financial futures denominated in USD translated at a rate of 1.437000		<b>-29,194.91</b>	<b>-0.04</b>
Total derivatives		<b>25,181.59</b>	<b>0.04</b>

**Breakdown of fund assets**

Securities		68,959,212.19	99.74
Forward exchange agreements		-260,428.50	-0.38
Financial futures		25,181.59	0.04
Cash in banks		242,239.87	0.35
Interest entitlements		175,485.71	0.25
Other deferred items		-597.56	-0.00
<b>Fund assets</b>		<b>69,141,093.30</b>	<b>100.00</b>

Dividend shares outstanding	shares	5,409,222
Non-dividend shares outstanding	shares	536,923
KEST-exempt non-dividend shares outstanding	shares	5,867
Share value for dividend share	EUR	10.85
Share value for non-dividend share	EUR	19.27
Share value for KEST-exempt non-dividend share	EUR	20.03

## ESPA BOND INTERNATIONAL

\* As of 31 July 2011, the securities marked with "lent" in the fund portfolio and the following securities were registered as lent in the following amounts and at the following fees in the securities lending system of Erste Bank der österreichischen Sparkassen AG:

Security designation	ISIN number	Lent	Fee
		amount	rate in %
		Shares/nominal (nom. in 1,000, rounded)	
B.T.P. 06-21	IT0004009673	150	0.35

### Investor note:

The values of assets in illiquid markets may deviate from their actual selling prices.

### Purchases and sales of securities in the reporting period not listed in the fund portfolio

Security designation	ISIN number	Interest rate	Purch./	Sales/
			additions	disposals
		Shares/nominal (nom. in 1,000, rounded)		
<b>Publicly traded securities</b>				
<b>Bonds denominated in EUR</b>				
<b>Issue country Belgium</b>				
BELGIQUE 10-16 59	BE0000319286	2.750000	0	400
<b>Issue country Germany</b>				
GOVT.BOND TREAS.PAP. 10/12	DE0001137313	0.750000	900	900
GOVT.BOND.V. 06/17	DE0001135317	3.750000	0	50
FED.BOND V.10/15 S.157	DE0001141570	2.250000	0	200
FED.BOND V.10/15 S.158	DE0001141588	1.750000	200	200
DT.KREDITBANK OPF 06/11	DE0003678421	3.750000	0	1,400
LBBW OPF.975	DE000LBW3GE9	3.500000	0	1,000
<b>Issue country France</b>				
CIE F.FONCIER 04/11 MTN	FR0010101824	4.000000	0	2,600
REP. FSE 03-19 O.A.T.	FR0000189151	4.250000	0	100
REP. FSE 05-21 O.A.T.	FR0010192997	3.750000	0	1,500
REP. FSE 06-38 O.A.T.	FR0010371401	4.000000	0	250
REP. FSE 07-17 O.A.T.	FR0010517417	4.250000	0	600
REP. FSE 07-23 O.A.T.	FR0010466938	4.250000	0	300
REP. FSE 08-18 O.A.T.	FR0010604983	4.000000	0	100

<b>Security designation</b>	<b>ISIN number</b>	<b>Interest rate</b>	<b>Purch./ additions Shares/nominal (nom. in 1,000, rounded)</b>	<b>Sales/ disposals</b>
<b>Issue country Italy</b>				
B.T.P. 05-37	IT0003934657	4.000000	0	450
B.T.P. 06-16	IT0004019581	3.750000	0	350
<b>Issue country Netherlands</b>				
B.N.G. 03/13 MTN	XS0166957000	4.375000	0	1,300
B.N.G. 05/15 MTN	XS0220923246	3.375000	0	800
<b>Issue country Spain</b>				
AYT - FDO TIT.ACT 01-11	ES0352961009	5.250000	0	1,500
<b>Securities admitted to organised markets</b>				
<b>Bonds denominated in GBP</b>				
<b>Issue country France</b>				
CIE F.FONCIER 06/11 MTN	FR0010326892	5.125000	0	1,000
<b>Bonds denominated in EUR</b>				
<b>Issue country Austria</b>				
RZB OESTER. 09/11	XS0426089719	2.500000	0	800
<b>Bonds denominated in JPY</b>				
<b>Issue country Netherlands</b>				
B.N.G. 06/16 MTN	XS0273242072	1.850000	0	342,000

Vienna, August 2011

ERSTE-SPARINVEST  
Kapitalanlagegesellschaft m.b.H.

Bednar

Gasser

Gschiegl

## **Unqualified Auditor's Opinion\***

We have audited the attached annual report as of 31 July 2011 prepared by ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H. for the fund under its management designated ESPA BOND INTERNATIONAL, mutual fund pursuant to § 20 InvFG, for the financial year from 1 August 2010 to 31 July 2011, including the accounting records for the fund. The annual report was prepared on the basis of the legal conditions valid as of the end of the reporting period pursuant to InvFG 1993 as amended.

### **Management responsibility for the annual report, managing the fund assets and accounting**

The legal representatives of the Management Company and the custodian bank are responsible for maintaining the fund's accounting records, valuing the fund assets, calculating withholding taxes, preparing the annual report and managing the fund assets, all in accordance with the provisions of the InvFG, the supplementary provisions in the fund terms and conditions, and the tax regulations. This responsibility includes: designing, implementing and maintaining an internal control system as needed for documenting and valuing the fund assets and for preparing the annual report in such a way that ensures that the report is free of material misstatements resulting from intentional or unintentional errors; the selection and application of suitable valuation methods; and the completion of estimates deemed appropriate in accordance with the prevailing conditions.

### **Auditor responsibility and description of the type and scope of the mandatory audit of the annual report**

It is our responsibility to state an opinion on this report on the basis of our audit.

We conducted our audit in accordance with § 49 paragraph 5 InvFG 2011, in accordance with the legal requirements that apply in Austria, and in accordance with Austrian generally accepted accounting principles. These principles obligate us to follow the standards of our profession and to plan and conduct our audit in a way that enables us to ascertain with a reasonable degree of certainty whether or not the annual report is free of material misstatements.

An audit includes the completion of audit steps to obtain evidence of the amounts and other information disclosed in the annual report. These steps must be selected by the auditor at his or her own discretion and taking into account the auditor's expectations of the risk of material misstatements resulting from intentional or unintentional errors. In assessing this risk, the auditor considers the internal control system as it is relevant for the preparation of the annual report and the valuation of the fund assets so as to be able to select audit steps that are appropriate for the specific situation. An ascertainment of the effectiveness of the Management Company's or custodian bank's internal control system is not part of the audit. The audit also includes an assessment of the appropriateness of the applied valuation methods and material estimates made by management, as well as evaluating the overall presentation of the annual report.

We believe that we have collected sufficient and suitable evidence over the course of our audit, and that our audit provides a sufficient basis for our opinion.

### **Audit opinion**

Our audit revealed no cause for objection. Based on the information obtained during the audit, we believe that the annual report as of 31 July 2011 for ESPA BOND INTERNATIONAL, mutual fund pursuant to § 20 InvFG, complies with the legal requirements.

### **Statements regarding compliance with the Austrian Investment Fund Act and the fund terms and conditions**

In accordance with § 49 paragraph 5 InvFG 2011, the audit must also include a determination of whether the provisions of the Austrian Investment Fund Act (Investmentfondsgesetz, InvFG) and the fund terms and conditions were complied with. We conducted our audit according to the aforementioned principles in such a way that we are able to form an opinion with sufficient certainty as to whether the provisions of the InvFG and the fund terms and conditions were complied with in general.

According to the information obtained during the audit, the provisions of the Austrian Investment Fund Act and the fund terms and conditions were complied with.

### **Statements regarding the report on activities in the reporting period**

The descriptions included in the annual report by the management of the Management Company about the activities in the reporting period were examined critically by us, but were not subject to special audit steps according to the aforementioned principles. Therefore, our audit opinion is not based on this information. Overall, the descriptions regarding the reporting period are in line with the figures indicated in the annual report.

Vienna, 19 September 2011

**ERNST & YOUNG**  
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

**Mag. Ernst Schönhuber**  
(Certified Public  
Accountant)

**Dr. Robert Wauschek**  
(Certified Public  
Accountant)

\* In the case of the publication or dissemination of the annual report with our auditor's opinion in a form that deviates from the confirmed (unabridged German) version (e.g. an abridged version or translation), reference may not be made to the auditor's opinion or our audit without our approval.

# Fund Terms and Conditions for ESPA BOND INTERNATIONAL

## Mutual Fund pursuant to § 20 InvFG General Terms and Conditions

governing the contractual relationship between the Shareholders and ERSTE-SPARINVEST KAG (hereinafter the "Investment Firm") for the mutual funds administered by the Investment Firm, which are only valid in combination with the Special Fund Terms and Conditions issued for each individual fund:

### § 1 Basic Terms

The Investment Firm is subject to the provisions of the 1993 Austrian Investment Fund Act as amended (hereinafter "InvFG").

### § 2 Fund Shares

1. Ownership in the assets held by the Investment Fund is divided into equal shares.

The number of shares is unlimited.

2. The partial ownership of the fund assets is evidenced by certificates having the characteristics of a security.

Fund shares may be issued as different classes of shares in accordance with the Special Fund Terms and Conditions.

The shares are depicted as global certificates (§ 24 Austrian Securities Deposit Act [Depotgesetz] as amended) and/or as effective individual shares.

3. Every purchaser of a share acquires proportionate ownership of all assets contained in the Investment Fund in accordance with the share of ownership assigned to the share. Every purchaser of a fraction of a global certificate acquires proportionate ownership of all assets contained in the Investment Fund in accordance with his fractional ownership of the global certificate.
4. The Investment Firm shall be permitted to split the shares in the fund with the approval of its Supervisory Board and issue additional share certificates to the Shareholders or replace the old share certificates with new ones when the Investment Firm deems that such a split would be in the interests of the Shareholders on the basis of the calculated share value (§ 6).

### § 3 Share Certificates and Global Certificates

1. The share certificates are bearer shares.
2. The global certificates bear the original signature of a managing director or a duly authorised employee of the custodian bank and the original or facsimile signature of two managing directors of the Investment Firm.
3. The individual share certificates bear the original signature of a managing director or a duly authorised employee of the custodian bank and the original or facsimile signature of two managing directors of the Investment Firm.

### § 4 Administration of the Investment Fund

1. The Investment Firm shall be authorised to dispose of the assets in the Investment Fund and to exercise the rights associated with ownership of these assets. In this, it shall act in its own name for the account of the Shareholders. It shall protect the interests of the Shareholders and the integrity of the market, shall exercise the prudence of an ordinary and conscientious businessman as defined by § 84 paragraph 1 Austrian Stock Corporation Act (Aktiengesetz), and shall comply with the provisions of the InvFG and the fund terms and conditions.

The Investment Firm shall be authorised to employ third parties in the management of the Investment Fund and shall be authorised to permit such third parties to dispose of the fund assets in the name of the Investment Firm or in their own name for the account of the Shareholders.

2. The Investment Firm shall not be permitted to grant loans or enter into guarantee commitments of any kind for the account of the Investment Fund.
3. Assets in the Investment Fund may not be pledged or subject to liens of any kind, provided as collateral or transferred to another party except in those cases explicitly permitted in the Special Fund Terms and Conditions.
4. The Investment Firm shall not be permitted to sell securities, money market instruments or other financial investments pursuant to §§ 20 and 21 InvFG that are not fund assets at the time of sale for the account of the Investment Fund.

### **§ 5 Custodian Bank**

The custodian bank (§ 13) appointed pursuant to § 23 InvFG shall manage the deposit and other accounts of the Investment Fund and shall exercise all other functions specified for it in the InvFG and in the fund terms and conditions.

### **§ 6 Issue and Share Value**

1. The custodian bank shall calculate the value (share value) of a single share for every class of share certificate and publish the issue and return price (§ 7) every time that a share is issued or returned, but in any case at least twice per month.

The value of a share shall be determined by dividing the total value of the Investment Fund including earnings by the number of shares. The custodian bank shall determine the total value of the Investment Fund on the basis of the prices of the securities and subscription rights contained in the Investment Fund plus the value of the money market instruments and financial investments, cash and cash equivalents, account balances, claims and other rights held by the Investment Fund, less any liabilities.

The prices of the securities shall be based on the last-known exchange or other set prices as per § 7 paragraph 1 InvFG.

2. The issue price shall be made up of the share value plus a premium per share to cover the costs incurred by the Investment Firm in issuing the share. The resulting price shall be rounded up. The amount of this premium and the rules for rounding are specified in the Special Fund Terms and Conditions (§ 25).
3. In accordance with § 18 InvFG in connection with § 10 paragraph 3 Austrian Capital Market Act (Kapitalmarktgesetz, KMG), the issue and return prices for every class of share certificate will be published in a business or daily newspaper that is published within Austria and has sufficient circulation and/or in electronic form on the web site of the issuing Investment Firm.

### **§ 7 Return**

1. Upon request by the Shareholder, his shares shall be redeemed at the current return price. In this event, the share certificate, outstanding coupons and the renewal certificate shall also be collected if necessary.
2. The return price shall be the value of one share less a discount and/or rounded down as specified in the Special Fund Terms and Conditions (§ 25). The payment of the return price and the calculation and publication of the return price as specified in § 6 may be suspended temporarily when the Austrian Financial Market Authority is informed of this fact and made dependent on the sale of assets in the Investment Fund and the receipt of the proceeds from the sale of assets by the Investment Firm under extraordinary conditions and when this is deemed necessary to protect justified Shareholder interests.

This shall especially apply when the Investment Fund has invested 5% or more of its total value in assets whose valuations clearly do not correspond to their actual values as a result of political or economic conditions, and not only in individual cases.

### **§ 8 Accounting**

1. The Investment Firm shall publish an annual report pursuant to § 12 InvFG within four months after the end of the Investment Fund's financial year.
2. The Investment Firm shall publish a semi-annual report pursuant to § 12 InvFG within two months after the end of the first six months of the Investment Fund's financial year.
3. The annual report and the semi-annual report shall be made available for viewing at the offices of the Investment Firm and at the custodian bank.

### **§ 9 Forfeiture of Earnings**

Shareholder entitlements to the payment of their proportionate earnings shall expire after five years. After the lapse of this period, the earnings shall be treated as earnings generated by the Investment Fund.

### **§ 10 Publication**

All notices pertaining to the share certificates, except for the notices pertaining to the calculated share values under § 6, are governed by § 10 of the Austrian Capital Market Act (Kapitalmarktgesetz, KMG). Publication can take place

- by full printing in *Amtsblatt zur Wiener Zeitung*, or
- by making a sufficient number of copies of the notice available at the Investment Firm and the payment offices free of charge and printing the date of publication and the locations where the notice can be obtained in *Amtsblatt zur Wiener Zeitung*, or
- in electronic form on the web site of the issuing Investment Firm pursuant to § 10 paragraph 3 item 3 KMG.

### **§ 11 Amendment of the Fund Terms and Conditions**

The Investment Firm shall be authorised to amend the fund terms and conditions with the approval of the Supervisory Board and the approval of the custodian bank. The amendments must also be approved by the Austrian Financial Market Authority. The amendments

must be published. Such amendments shall take effect on the date indicated in the published notice, but in any case no earlier than three months after publication.

### **§ 12 Termination and Liquidation**

1. The Investment Firm shall be authorised to terminate the administration of the Investment Fund after obtaining approval from the Financial Market Authority with a period of notice of at least six months, or immediately upon publication of a corresponding public notice (§ 10) if the fund assets fall below EUR 370,000.
2. If the Investment Firm loses its right to administer the Investment Fund, the administration or liquidation of the fund shall be handled in accordance with the provisions of the InvFG.

### **§ 12a Merger or Transfer of Fund Assets**

The Investment Firm shall, in compliance with § 3 paragraph 2 and § 14 paragraph 4 InvFG, be authorised to merge the assets of the Investment Fund with the assets of other investment funds, to transfer the assets of the Investment Fund to another investment fund, or to incorporate assets from other investment funds into the portfolio of the Investment Fund.

## **Special Fund Terms and Conditions**

for ESPA BOND INTERNATIONAL, mutual fund pursuant to § 20 InvFG (the "Investment Fund" in the following).

The Investment Fund is compliant with Directive 85/611/EEC.

### **§ 13 Custodian Bank**

The custodian bank is Erste Bank der oesterreichischen Sparkassen AG, Vienna.

### **§ 14 Payment and Submission Offices, Share Certificates**

1. The payment and submission office for the share certificates and coupons is all Österreichische Sparkasse offices and branches as well as Erste Bank der oesterreichischen Sparkassen AG, Vienna, and all of its branches.
2. The Investment Fund features two different share classes and the corresponding certificates: dividend shares and non-dividend shares without capital gains tax withholding, with certificates being issued for one share each. The Investment Firm reserves the right to issue certificates for non-dividend shares with capital gains tax withholding for one share each.

Non-dividend shares without capital gains tax deduction are not sold in Austria.

The holders of shares are entitled to demand the issue of individual share certificates. The issue of such certificates may require some time for printing reasons.

The KEST-exempt non-dividend share certificates are depicted in global certificates. For this reason, individual share certificates cannot be issued.

3. As the share certificates are depicted in global certificates, the dividend payments according to § 28 and the payouts according to § 29 are made by the bank managing the Shareholder's securities account.

### **§ 15 Investment Instruments and Principles**

1. The Investment Firm shall be authorised as defined by §§ 4, 20 and 21 InvFG and §§ 16ff of the fund terms and conditions to purchase all types of securities, money market instruments and other liquid financial investments for the Investment Fund, provided that the principle of risk diversification is maintained and no justified Shareholder interests are violated.
2. ESPA BOND INTERNATIONAL is a bond fund. The fund assets are invested according to the following investment policy principles:

- a) government bonds, bank bonds and corporate bonds in the investment grade (or other comparable) segment in terms of ratings assigned by recognised rating agencies will be purchased according to the possibilities on the market.

Bonds denominated in euros or in another currency may be purchased. There are no limitations with regards to the domicile of the issuer or the economic sector in which the issuer is active.

- b) the fund will purchase shares in investment funds pursuant to § 17 of these fund terms and conditions that, according to their terms and conditions, invest predominantly in bonds or comparable assets or that are categorised as a bond fund or as comparable to a bond fund by an internationally recognised organisation (such as its classification according to Bloomberg, Datastream, software-systems.at Börsensoftware & Datenbankservice GmbH, etc.), regardless of the country in which the respective management company is domiciled.

- c) investments in assets according to § 18 of these fund terms and conditions may play a minor role. However, in the course of

the restructuring of the fund portfolio or in order to reduce the influence of possible price losses experienced by securities, the Investment Fund can hold a higher proportion of demand deposits or callable deposits with a maximum term of 12 months.

- d) the Investment Firm reserves the right to invest in other assets as per item 1 to a limited extent in addition to those specified in letters a) through c).
- e) derivative instruments in accordance with § 19 and § 19a of these fund terms and conditions may be purchased for risk mitigation (hedging) purposes and also for speculative purposes. Derivatives may play a major role relative to the total net value of the fund assets, both for hedging and non-hedging purposes.

Please see § 19b of the fund terms and conditions for more detailed information about the determination of overall risk.

- 3. If securities and money market instruments containing an embedded derivative are purchased for the Investment Fund, the Investment Firm must take this into account in compliance with §§ 19 and 19a. Investments in index-based derivatives are not taken into account in the investment limits in § 20 paragraph 3 items 5, 6, 7 and 8d InvFG.
- 4. Securities or money market instruments issued or guaranteed by a Member State including its political subdivisions, by a non-Member State or by international organisations with a public sector character in which one or more Member States are members may make up more than 35% of the Investment Fund provided that the Investment Fund assets are invested in at least six different instruments, but an investment in one instrument may not make up more than 30% of the total Investment Fund assets.

### **§ 16 Exchanges and Organised Markets**

- 1. Securities and money market instruments may only be purchased for the Investment Fund when they
  - are listed or traded on a regulated market pursuant to § 2 item 37 of the Austrian Banking Act (BWG), or
  - are traded on another recognised, regulated securities market in a Member State that is open to the public and that is functioning properly, or
  - are officially listed on one of the non-Member State exchanges listed in the Annex, or
  - are traded on another recognised, regulated securities market in a non-Member State as listed in the Annex that is open to the public and that is functioning properly, or
  - when the issue terms include the obligation to apply for public listing or admission for trading on one of the above-named exchanges or admission for trading on one of the above-mentioned other markets, and approval is granted by no later than one year after the issue of the security.
- 2. Money market instruments that are not traded on a regulated market and that are customarily traded on the money market, that are liquid and whose value can be determined exactly at any time may be purchased for the Investment Fund if the instrument or the issuer itself is subject to the legal deposit and investor protection regulations and the instrument
  - was issued or is guaranteed by a national, regional or municipal political entity or the central bank of a Member State, the European Central Bank, the European Union, or the European Investment Bank, a non-Member State, or, if it is a federal state, a member state of the federation, or an international organisation with public sector character and of which at least one Member State is a member, or
  - was issued by a company whose securities are traded on one of the regulated markets listed under item 1, with the exception of new issues, or
  - was issued or is guaranteed by an institution that is subject to supervisory regulations according to the criteria set forth in Community law, or that was issued or is guaranteed by an institution that is subject to and complies with supervisory regulations that in the opinion of the Financial Market Authority are at least as strict as those laid down in Community law, or
  - was issued by another party belonging to a category approved by the Financial Market Authority, provided that equivalent investor protection regulations apply to investments in these instruments, and provided that the issuer is either a business entity with capital stock of at least EUR 10 million that prepares and publishes its annual financial statements in accordance with the regulations of Directive 78/660/EEC, or is another legal entity that is responsible for finance management in a group of one or more listed companies, or is a legal entity that finances the collateralisation of debt by using a line of credit granted by a bank.
- 3. A total of 10% of the fund assets may be invested in securities and money market instruments not meeting the requirements of items 1 and 2.

### **§ 17 Shares in Investment Funds**

- 1. Shares in investment funds (investment funds and open investment companies) that fulfil the requirements of Directive 85/611/EEC (UCITS) may make up no more than 20% of the Investment Fund assets in total, provided that the target funds themselves do not invest more than 10% of their fund assets in shares of other investment funds.
- 2. Shares in investment funds which do not meet the requirements of Directive 85/611/EEC (UCITS) and whose sole purpose is

- to invest money contributed by a group of investors for their joint account in securities and other liquid financial investments under the principles of risk diversification, and
  - whose shares can be redeemed or paid out directly or indirectly from the assets of the investment fund upon request by the shareholder,  
  
may each comprise up to 20% of the fund assets, but in aggregate total no more than 30% of the fund assets, provided that
  - these target funds do not invest more than 10% of their fund assets in shares in other investment funds, and
  - these are approved under legal regulations that place them under regulatory supervision that in the opinion of the Financial Market Authority is equivalent to that proscribed by Community law and there is sufficient certainty of collaboration between the authorities, and
  - the protection afforded to the shareholders is equivalent to that afforded to shareholders of investment funds that meet the requirements of Directive 85/611/EEC (UCITS), and that are in particular equivalent to the requirements of Directive 85/611/EEC in terms of regulations for the separate management of special assets, the acceptance of loans, the granting of loans, and the short selling of securities and money market instruments, and
  - semi-annual and annual reports are published on the activities of the fund, and these reports provide a clear picture of the assets, liabilities, earnings and transactions in the reporting period.
3. The Investment Firm may also purchase for the Investment Fund shares in other investment funds that are directly or indirectly administered by the Investment Firm or by a firm that is associated with the Investment Firm by way of joint administration or control or through a direct or indirect material equity interest.

#### **§ 18 Demand Deposits or Callable Deposits**

1. The Investment Fund may hold bank deposits in the form of demand deposits or callable deposits for a maximum term of 12 months. No minimum or maximum limits apply to bank deposits.
2. The provisions in item 1 are general in nature. The Investment Fund may purchase assets outlined in item 1 in accordance with the investment principles in § 15.

#### **§ 19 Derivative Financial Instruments**

1. Derivative financial instruments, including equivalent instruments settled in cash, may be purchased for the Investment Fund when they are traded on one of the regulated markets specified in § 16, and when the underlying values are securities, money market instruments or other liquid financial investments as defined in § 15 or financial indices, interest rates, exchange rates or currencies in which the Investment Fund is permitted to invest according to its investment principles (§ 15).
2. The overall risk associated with the derivative instruments may not exceed the total net value of the Investment Fund assets. In calculating the risk, the fair values of the underlying instruments, the default risk, future market fluctuations, and the time available to liquidate the positions must be taken into account.
3. The Investment Fund may hold derivative financial instruments within the limits specified by § 20 paragraph 3 items 5, 6, 7, 8a and 8d InvFG as part of its investment strategy, provided that the overall risk of the underlying instruments does not exceed these investment limits.
4. The provisions in items 1 to 3 are general in nature. The Investment Fund may purchase financial instruments outlined in item 1 in accordance with the investment principles in § 15.

#### **§ 19a OTC Derivatives**

1. The Investment Fund may purchase derivative financial instruments that are not traded on an exchange (OTC derivatives) provided that
  - a) the underlying instruments are among those described in § 19 item 1,
  - b) the counterparties are banks subject to supervision and from a category approved by ordinances enacted by the Financial Market Authority,
  - c) the OTC derivatives are subject to reliable and transparent daily valuation and can be sold, liquidated, or settled by means of an offsetting transaction at a reasonable fair value at any time at the initiative of the Investment Fund,
  - d) they are held within the limits specified in § 20 paragraph 3 items 5, 6, 7, 8a and 8d InvFG and the overall risk of the underlying instruments does not exceed these investment limits.
2. The default risk for OTC derivative transactions by the Investment Fund may not exceed the following levels:
  - a) 10% of the Investment Fund assets when the counterparty is a bank,

b) otherwise 5% of the fund assets.

3. The provisions in items 1 and 2 are general in nature. The Investment Fund may purchase financial instruments outlined in item 1 in accordance with the investment principles in § 15.

#### **§ 19b Value at Risk**

The allocable overall risk resulting from the investments held by the fund (absolute value at risk) is limited to 5.0% of the total net value of the fund assets. The absolute VaR limit is determined on the basis of an evaluation of the overall investment process. Please refer to the fund prospectus for detailed information.

#### **§ 20 Loans**

The Investment Firm may accept short-term loans for the account of the Investment Fund up to an amount of 10% of the total fund assets.

#### **§ 21 Repurchase Agreements**

The Investment Firm is authorised within the investment limits laid down in the InvFG to purchase assets for the account of the Investment Fund containing an obligation on the part of the seller to purchase the assets back at a specific time in the future and at a specific price.

#### **§ 22 Interest Rate Swaps**

The Investment Firm is permitted to exchange variable interest rate entitlements for fixed interest rate entitlements and vice-versa within the investment limits proscribed by the InvFG provided that the interest payments to be made are offset by interest entitlements of the same kind from assets in the fund portfolio.

#### **§ 23 Foreign Currency Swaps**

The Investment Firm is permitted to exchange fund assets for fund assets denominated in a different currency within the investment limits proscribed by the InvFG.

#### **§ 24 Securities Lending**

The Investment Firm is authorised within the investment limits laid down in the InvFG to sell securities up to an amount of 30% of the total Investment Fund assets to another party through a recognised securities lending system for a limited time under the condition that the third party is obligated to return the securities after an agreed period of time.

#### **§ 25 Issue and Return Procedure**

The share value shall be calculated in EUR in accordance with § 6.

The issue premium to cover the costs incurred by the Investment Firm in issuing the share shall be 3.5%. The issue price will be rounded up to the next full cent after the calculated share price and the issue premium are added. The return price is the share value.

There is no limit on the issue of shares in principle. However, the Investment Firm reserves the right to temporarily or permanently suspend the issue of share certificates.

#### **§ 26 Financial Year**

The financial year of the Investment Fund is from 1 August to 31 July of the following calendar year.

#### **§ 27 Administration Fee, Compensation for Expenses**

The Investment Firm shall receive a monthly fee for its management activities amounting to up to 0.06% of the fund assets as calculated using the month-end values.

The Investment Firm shall also be entitled to compensation for all expenses incurred in the administration of the Investment Fund, especially costs for mandatory publications, custodial fees, fees charged by the custodian bank, auditing and consulting costs, and costs for the preparation of period-end financial statements.

#### **§ 28 Use of Earnings for Dividend Shares**

The earnings generated during a financial year shall, after deduction of all costs, be distributed in full to the holders of dividend shares when these earnings arise from interest and dividends received by the fund. If such earnings are the result of the sale of fund assets, these shall be distributed to the holders of dividend shares at the discretion of the Investment Firm, with the non-disbursed amount being carried forward. In both cases, the dividend payment shall be effected on or after 1 October of the following financial year, against collection of the coupon if necessary.

#### **§ 29 Use of Earnings for Non-Dividend Shares with Capital Gains Tax Withholding**

The earnings generated by the Investment Fund during the financial year less all costs will not be paid out. Unless the preconditions specified in § 13 InvFG for the exemption of payment apply to all Shareholders, an amount calculated in accordance with § 13 sentence 3

InvFG must also be paid out on or after 1 October of the following financial year to cover the capital gains tax assessed by the tax authorities on the dividend-equivalent earnings from the Investment Fund shares.

#### **§ 29a Use of Earnings for Non-Dividend Shares without Capital Gains Tax Withholding (KESt-exempt non-dividend foreign tranche)**

The earnings generated by the Investment Fund during the financial year less all costs will not be paid out. No payment pursuant to § 13 sentence 3 InvFG will be made.

The Investment Firm shall provide suitable proof to the banks managing the corresponding securities accounts that the share certificates could only be held by Shareholders who are not subject to Austrian personal or corporate income tax or who met the conditions for exemption from capital gains tax according to § 94 of the Austrian Income Tax Act (Einkommensteuergesetz) at the time of payment.

#### **§ 30 Liquidation**

The custodian bank shall receive a fee in the amount of 0.5% of the fund assets upon liquidation.

## **Annex to the Special Fund Terms and Conditions**

### **List of exchanges with official trading and organised markets (As of October 2007)**

#### **1. Exchanges with official trading and organised markets in the Member States of the EEA**

According to Article 16 of Directive 93/22/EEC (Investment Services Directive), every Member State must maintain a current list of the authorised markets within its territory. This list must be submitted to the other Member States and the Commission.

According to this provision, the Commission is required to publish a list of the regulated markets registered with it by the Member States once per year.

Because of lower entry barriers and specialisation in different trading segments, the list of "regulated markets" is subject to significant changes. For this reason, the Commission will publish an up-to-date version of the list on its official web site in addition to the annual publication of a list in the Official Journal of the European Union.

#### **The currently valid list of regulated markets can be found at**

<http://www.fma.gv.at/cms/site//attachments/2/0/2/CH0230/CMS1140105592256/listegeregmaerkte.pdf>

under "Verzeichnis der Geregeltten Märkte (pdf)" (List of Regulated Markets).

#### **1.2 The following exchanges are included in the list of regulated markets:**

1.2.1	Finland:	OMX Nordic Exchange Helsinki
1.2.2	Sweden:	OMX Nordic Exchange Stockholm AB
1.2.3	Luxembourg:	Euro MTF Luxembourg

#### **1.3. Recognised markets in the EU according to § 20 paragraph 3 item 1 lit. b InvFG:**

1.3.1	Great Britain:	London Stock Exchange Alternative Investment Market (AIM)
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#### **2. Exchanges in European countries outside of the EEA**

2.1	Bosnia and Herzegovina:	Sarajevo
2.2	Republika Srpska, BiH:	Banja Luka
2.3	Croatia:	Zagreb, Varaždin
2.4	Switzerland:	SWX Swiss Exchange
2.5	Serbia and Montenegro:	Belgrade
2.6	Turkey:	Istanbul (only "National Market" on the stock market)
2.7	Russia:	Moscow (RTS Stock Exchange)

#### **3. Exchanges in non-European countries**

3.1	Australia:	Sydney, Hobart, Melbourne, Perth
3.2	Argentina:	Buenos Aires
3.3	Brazil:	Rio de Janeiro, Sao Paulo
3.4	Chile:	Santiago
3.5	China:	Shanghai Stock Exchange, Shenzhen Stock Exchange
3.6	Hong Kong:	Hong Kong Stock Exchange
3.7	India:	Bombay
3.8	Indonesia:	Jakarta

3.9	Israel:	Tel Aviv
3.10	Japan:	Tokyo, Osaka, Nagoya, Kyoto, Fukuoka, Niigata, Sapporo, Hiroshima
3.11	Canada:	Toronto, Vancouver, Montreal
3.12	Korea:	Seoul
3.13	Malaysia:	Kuala Lumpur
3.14	Mexico:	Mexico City
3.15	New Zealand:	Wellington, Christchurch/Invercargill, Auckland
3.16	Philippines:	Manila
3.17	Singapore:	Singapore Stock Exchange
3.18	South Africa:	Johannesburg
3.19	Taiwan:	Taipei
3.20	Thailand:	Bangkok
3.21	USA:	New York, American Stock Exchange (AMEX), New York Stock Exchange (NYSE), Los Angeles/Pacific Stock Exchange, San Francisco/Pacific Stock Exchange, Philadelphia, Chicago, Boston, Cincinnati
3.22	Venezuela:	Caracas

#### 4. Organised markets in countries outside of the European Community

4.1	Japan:	over the counter market
4.2	Canada:	over the counter market
4.3	Korea:	over the counter market
4.4	Switzerland:	SWX Swiss Exchange, BX Berne eXchange; over the counter market of the members of the International Securities Market Association (ISMA), Zurich
4.5	USA:	Over the counter market in the NASDAQ system, over the counter market (markets organised by NASD such as the over the counter equity market, municipal bond market, government securities market, corporate bonds and public direct participation programs), over the counter market for agency mortgage-backed securities

#### 5. Exchanges with futures and options markets

5.1	Argentina:	Bolsa de Comercio de Buenos Aires
5.2	Australia:	Australian Options Market, Sydney Futures Exchange Limited
5.3	Brazil:	Bolsa Brasileira de Futuros, Bolsa de Mercadorias & Futuros, Rio de Janeiro Stock Exchange, Sao Paulo Stock Exchange
5.4	Hong Kong:	Hong Kong Futures Exchange Ltd.
5.5	Japan:	Osaka Securities Exchange, Tokyo International Financial Futures Exchange, Tokyo Stock Exchange
5.6	Canada:	Montreal Exchange, Toronto Futures Exchange
5.7	Korea:	Korea Futures Exchange
5.8	Mexico:	Mercado Mexicano de Derivados
5.9	New Zealand:	New Zealand Futures & Options Exchange
5.10	Philippines:	Manila International Futures Exchange
5.11	Singapore:	Singapore International Monetary Exchange
5.12	Slovakia:	RM System Slovakia
5.13	South Africa:	Johannesburg Stock Exchange (JSE), South African Futures Exchange (SAFEX)
5.14	Switzerland:	EUREX
5.15	Turkey:	TurkDEX
5.16	USA:	American Stock Exchange, Chicago Board Options Exchange, Chicago Board of Trade, Chicago Mercantile Exchange, Comex, FINEX, Mid America Commodity Exchange, New York Futures Exchange, Pacific Stock Exchange, Philadelphia Stock Exchange, New York Stock Exchange, Boston Options Exchange (BOX)

According to § 43 paragraph 1 of the 1993 InvFG, we hereby inform you that a prospectus pursuant to § 6 paragraph 1 of the InvFG can be viewed at the domicile of the Investment Firm and at the head office of the custodian bank, Erste Bank der oesterreichischen Sparkassen AG. The publication date of this prospectus and the places where copies can be obtained were announced in *Amtsblatt zur Wiener Zeitung* on 3 October 2009.

[www.sparinvest.com](http://www.sparinvest.com)  
[www.erstesparinvest.at](http://www.erstesparinvest.at)