

With a record first half in the bag, Erste Asset Management focuses on more defensive income generators

- Scenario: soft landing with risks attached
- Interest rate cuts in Europe and in the USA imminent
- Record volume of EUR 82.2bn in assets under management and EUR 1.46 billion fund savings plans
- Erste AM favours more defensive risky assets and corporate bond funds
- Please note: Investments in securities entail risks in addition to the opportunities

The mood on the financial markets was buoyant in the first half of the year. Erste Asset Management, the largest domestic asset manager, also benefited from this situation, setting a new record for assets under management. The most recent share price turbulences, originating in Japan, indicate that the path could now become bumpier. That being said, the investment experts at Erste AM expect the economy in the developed economies to make a soft landing. The asset manager favours defensive equities and higher-yielding corporate bond funds in the second half of the year .

"The recent losses on the stock markets have shown that the path for a so-called soft landing of the economy is a tight one," summarises Erste AM chief economist Gerhard Winzer. "In fact, growth indicators have recently been somewhat disappointing. However, the trigger for the losses is situated in Japan."

Interest rate hikes in Japan create shock waves

At the end of July, the Japanese central bank raised its key-lending rate for the second time this year (from 0.1% to 0.25%) at a surprisingly early stage. At the same time, it announced a gradual reduction in bond purchases (quantitative tightening; QT). Even more important was probably Governor Ueda's statement that more interest rate hikes towards a neutral level would follow if the economic data developed as expected. We could see an increase in the key-lending rate to 0.75% by the end of 2025. At the same time, falling inflation and the weakening labour market in the US have raised expectations for rate cuts: According to Erste AM's expectations, the key-lending rate should be lowered from the current 5.5% to 3.0% by the end of 2025. Similarly, in the Eurozone: "Here, we expect a reduction in the key-lending rate (i.e. deposit rate) from the current 3.75% to 2%," as Winzer points out.

Stronger yen puts pressure on leveraged investments

The surprising interest rate hike signals from the Japanese central bank have sent shockwaves through the financial system. According to Erste AM economist Winzer, the Japanese currency is massively undervalued. In recent years, the driving factor behind this has been the ultra-loose monetary policy in Japan, while the other central banks have raised key-lending rates. The yen has increasingly been used as a financing currency for investments in higher-yielding forms of investment. This can be seen in the sharp rise in the volume of yen-denominated loans from Japanese banks to foreign countries. "The interest rate differential between Japan and the rest of the world is now narrowing. The result is a significant appreciation of the

yen. This is putting pressure on debt-financed investments," emphasises Winzer. In this context, shares with high valuations and equally high profit expectations have also come under pressure (e.g. US technology companies). For Winzer, this development comes with a positive aspect: "The more the market turbulence is driven by the unwinding of yen carry trades or the less by a deterioration in the economic environment, the sooner the markets could calm down."

Base-case scenario: soft landing

The key points for the soft-landing scenario as deemed most likely by Winzer are a slowdown in economic growth in the developed economies to slightly below trend, and a slow decline in inflation. Next year, inflation rates will probably still be slightly above the central banks' target of 2% (USA: 2.3%, Eurozone: 2.2%). "The USA is no longer the growth engine in this environment." While the US economy is slowing to below potential growth (2025: 1.7%), Europe is reembaring on its growth path (Eurozone: 1.0%). A similar scenario applies to the manufacturing sector, where economist Winzer sees a transition from stagnation to a growth path, whereas the service sector, which has been the growth driver to date, is gradually weakening. However, the latest economic indicators have not supported this scenario. The downside risks have increased.

Second half: focus on defensive equities and corporate bonds with higher yields

Based on its macroeconomic assessment, Erste AM is currently adopting a more defensive equity allocation: in the mixed funds managed by Erste AM, the equity weighting is currently slightly below the long-term weighting, whereby shares with low volatility such as telecommunications and insurance companies, healthcare, and consumer staples are overweighted. In the country allocation, Latin America is overweighted on the equity side, while the USA is underweighted in response to the increased recession risks and ambitious equity valuations. Erste AM is taking a neutral stance vis-à-vis the other regions (Europe and the UK, Asia and the other emerging markets).

Bonds will be given greater weight in the second half of the year, resulting in an increased bond ratio. High-yield bonds in particular offer an attractive risk/reward ratio due to the widening of the interest rate spread relative to risk-free investments. Bond funds with a short residual time to maturity (and money market funds) are also relatively attractive for Erste AM due to the inverse interest rates. Bonds with high credit ratings, especially government bonds, remain underweighted, as the expected cuts in key-lending rates have already been priced in.

In potentially more volatile market phases, a certain allocation in gold is a must. In the long term in particular, it could prove to be a safe haven against market turbulence, excessive inflation, and a depreciating US dollar. In the case of industrial metals and energy stocks the pro arguments of the base case scenario of the "soft landing" and the the threat of war in the Middle East balance out with the contra arguments of the weak manufacturing sector and the outlined growth risks. Erste AM is therefore neutrally positioned here.

*„This positioning offers us a buffer for one or two turbulent phases in autumn and at the same time the opportunity to be involved in a recovery right from the start,“ says **Heinz Bednar, CEO Erste Asset Management.***

Note: Prognoses are not a reliable indicator of future performance.

This results in the following areas of focus for the funds of Erste AM for the second half of the year: in the equity line of funds, we have **CORE Equities** (ISIN: AT0000A2GK86), an index-tracking equity fund with a lean cost structure that is suitable as a basic investment. In the bond fund segment, Erste AM is launching **ERSTE BOND CORPORATE BB** (ISIN: AT0000A09HC7), a corporate bond fund on the threshold from investment grade to high yield. The focus is also on the newly launched **ERSTE OPPORTUNITIES MIX** (ISIN: AT0000A3BMJ8), a globally investing mixed fund that invests in long-term trends while also seizing short and medium-term opportunities.

Please note: Investments in securities entail risks in addition to the opportunities described.

Erste AM: record level of assets under management at EUR 82.2bn in the first half

Despite many question marks regarding interest rate cuts and economic developments, investors were confident in the first half of 2024 and stepped up their investments in funds. Erste Asset Management has increased its assets under management by 5.1% or about EUR 4bn in the year to date to a new record of EUR 82.2bn (as of 30 June 2024; source: own data). The companies in Croatia, where the volume soared by 45.4% from a comparatively low level, and in Romania, where it rose by 15.3%, recorded strong growth. The company with the highest volume of assets under management behind Erste AM in Austria (EUR 54.3bn) is the Czech subsidiary with an investment volume of EUR 17.6bn. Erste AM is the market leader in Austria, Romania, and the Czech Republic. Mixed funds are the most important asset class at Erste AM, accounting for around 40% of total assets, followed by bonds at about 30%, equities at about 23%, and real estate at about 6%.

Heinz Bednar, Managing Director of Erste AM, takes stock: *"The mood on the markets was very positive in the first half of the year, and our customers were rewarded for their investment with above-average fund value growth. From here on out, it won't be quite as easy, because we can see potholes opening up that we want to avoid with suitable strategies and products."*

A quarter of Erste AM's assets under management held in funds are sustainable

Ethical, social, and sustainable criteria are becoming increasingly important for both retail and institutional investors as well as special funds. The volume of sustainable funds classified under Articles 8 and 9 of the EU Disclosure Regulation has increased by EUR 5.2bn to EUR 22.6bn in the year to date, which corresponds to almost 30%. The share of sustainable investments in Erste AM's total assets under management was 27.5% at mid-year.

Equity and bond term funds in demand

As the sales figures show, global equity funds such as the sustainable **ERSTE RESPONSIBLE STOCK GLOBAL** (ISIN: AT0000646799) and **ERSTE STOCK QUALITY** (ISIN: AT0000A2HV58) were in demand among Austrian investors in the first half of the year, as were bond term funds for interest rate bargain hunters. Erste AM manages a volume of EUR 252.6mn with this series of term funds; nine have been

launched to date. "The current bond yields, especially for higher-yielding corporate bonds, open up good earnings opportunities. We will continue this successful series in autumn", as Bednar announces further launches of term funds. In Croatia, a money market fund is very popular with investors. In Slovakia, the Czech Republic, and Hungary, bond funds lead the ranking of the most popular funds in the first half of the year. In Romania, a mixed fund ranks at the top of the popularity scale.

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1.46 million fund savings plans so far

Fund savings plans are proving to be a popular investment option, especially for investment newcomers, and are widely available at Erste AM. They had increased to a record number of 1.46 million units by the end of the first half of the year. This represents a growth rate of about one fifth over the year. In relation to the total portfolio, more women (51.6%) than men (48.4%) regularly invest in Erste AM funds via savings plans. Around 13% of fund savings plan holders are under 30, in Austria even more than a fifth. More and more people are taking advantage of the option to open such a fund savings plan online via George: one fifth of newly opened fund savings plans are already recorded digitally (without advice). Croatia (82%) and Romania (60%) have a particularly high digital check-out rate. In Austria, equity funds are highly popular as fund savings plans (75%), while bond funds dominate in Romania. In the Czech Republic, equity funds, bond funds, and mixed funds each account for a third of fund savings plans.

About us

Erste Asset Management GmbH (Erste AM) is an international asset management company with a strong position in Central and Eastern Europe. Erste Asset Management is backed by the financial strength of Erste Group Bank AG (Erste Group).

At its locations in Austria, Germany, Croatia, Romania, Slovakia, the Czech Republic, and Hungary, Erste AM manages assets of EUR 82.2bn (as of 30 June 2024).

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Important legal notes

This document is an advertisement. Please refer to the prospectus of the UCITS or to the Information for Investors pursuant to Art 21 AIFMG of the alternative investment fund and the Key Information Document before making any final investment decisions. All data is sourced from Erste Asset Management GmbH, unless indicated otherwise. Our languages of communication are German and English.

The prospectus for UCITS (including any amendments) is published in accordance with the provisions of the InvFG 2011 in the currently amended version. Information for Investors pursuant to Art 21 AIFMG is prepared for the alternative investment funds (AIF) administered by Erste Asset Management GmbH, pursuant to the provisions of the AIFMG in connection with the InvFG 2011.

The fund prospectus, Information for Investors pursuant to Art 21 AIFMG, and the Key Information Document can be viewed in their latest versions at the web site www.erste-am.com within the section mandatory publications or obtained in their latest versions free of charge from the domicile of the management company and the domicile of the custodian bank. The exact date of the most recent publication of the fund prospectus, the languages in which the Key Information Document is available, and any additional locations where the documents can be obtained can be viewed on the web site www.erste-am.com. A summary of investor rights is available in German and English on the website www.erste-am.com/investor-rights as well as at the domicile of the management company.

The management company can decide to revoke the arrangements it has made for the distribution of unit certificates abroad, taking into account the regulatory requirements.

Our analyses and conclusions are general in nature and do not take into account the individual needs of our investors in terms of earnings, taxation, and risk appetite. Past performance is not a reliable indicator of the future performance of a fund. Please note that investments in securities entail risks in addition to the opportunities presented here. The value of shares and their earnings can rise and fall. Changes in exchange rates can also have a positive or negative effect on the value of an investment. For this reason, you may receive less than your originally invested amount when you redeem your shares. Persons who are interested in purchasing shares in investment funds are advised to read the current fund prospectus(es) and the Information for Investors pursuant to Art 21 AIFMG, especially the risk notices they contain, before making an investment decision. If the fund currency is a currency other than the investor's home currency, changes in the corresponding exchange rate may have a positive or negative impact on the value of his investment and the amount of the costs incurred in the fund - converted into his home currency.

Please consult the corresponding information in the fund prospectus and the Information for Investors pursuant to Art 21 AIFMG for restrictions on the sale of fund shares to American or Russian citizens. Misprints and errors excepted.

Risk notes**CORE Equities**

The discretionary selection of assets permitted for the investment fund is limited. The fund employs a passive investment policy and the scope of discretion of the management company is limited. The investment fund is a user within the meaning of Regulation (EU) 2016/1011 (Reference Assets Regulation). For further information on the sustainable focus of CORE Equities as well as on the disclosures in accordance with the Disclosure Regulation (Regulation (EU) 2019/2088) and the Taxonomy Regulation (Regulation (EU) 2020/852), please refer to the current Prospectus, section 12 and the Annex "Sustainability Principles". In deciding to invest in CORE Equities, consideration should be given to any characteristics or objectives of the CORE Equities as described in the Fund Documents.

Advantages for the investor

- Broad diversification in global stocks with little capital investment.
- Participation in the stability of developed markets.
- Opportunities for capital appreciation.

Risks to be considered

- The price of the funds can fluctuate considerably (high volatility).
- Due to the investment in foreign currencies, the net asset value in Euro can fluctuate due to changes in the exchange rate.
- Capital loss is possible.
- Risks that may be significant for the fund are in particular: credit and counterparty risk, liquidity risk, custody risk, derivative risk and operational risk. Comprehensive information on the risks of the fund can be found in the prospectus or the information for investors pursuant to § 21 AIFMG, section II, "Risk information".

ERSTE BOND CORPORATE BB

The fund employs an active investment policy and is not oriented towards a benchmark. The assets are selected on a discretionary basis and the scope of discretion of the management company is not limited. For further information on the sustainable focus of ERSTE BOND CORPORATE BB as well as on the disclosures in accordance with the Disclosure Regulation (Regulation (EU) 2019/2088) and the Taxonomy Regulation (Regulation (EU) 2020/852), please refer to the current Prospectus, section 12 and the Annex "Sustainability Principles". In deciding to invest in ERSTE BOND CORPORATE BB, consideration should be given to any characteristics or objectives of the ERSTE BOND CORPORATE BB as described in the Fund Documents.

Advantages for the investor

- Broad diversification in high-yield bonds.
- Attractive, long-term asset class.
- High annual payouts.
- No currency effects due to currency hedging.

Risks to be considered

- Medium to high price fluctuations are possible.

- Deterioration in credit ratings can lead to price declines.
- Increased risk due to average to low debtor credit rating of participating companies.
- Capital loss is possible.
- Risks that may be significant for the fund are in particular: credit and counterparty risk, liquidity risk, custody risk, derivative risk and operational risk. Comprehensive information on the risks of the fund can be found in the prospectus or the information for investors pursuant to § 21 AIFMG, section II, "Risk information".

ERSTE OPPORTUNITIES MIX

The fund employs an active investment policy and is not oriented towards a benchmark. The assets are selected on a discretionary basis and the scope of discretion of the management company is not limited. For further information on the sustainable focus of ERSTE OPPORTUNITIES MIX as well as on the disclosures in accordance with the Disclosure Regulation (Regulation (EU) 2019/2088) and the Taxonomy Regulation (Regulation (EU) 2020/852), please refer to the current Prospectus, section 12 and the Annex "Sustainability Principles". In deciding to invest in ERSTE OPPORTUNITIES MIX, consideration should be given to any characteristics or objectives of the ERSTE OPPORTUNITIES MIX as described in the Fund Documents.

Advantages for the investor

- Participation in global, future-oriented themes
- Investment in an actively managed portfolio of equities, bonds, listed private markets, commodities and currencies.
- Risk diversification across several countries, sectors and asset classes

Risks to be considered

- Investments in capital markets are subject to market price fluctuations.
- An investment in the mentioned themes can also develop negative, a loss of capital is possible.
- Due to the investment in foreign currencies, the fund value may be negatively impacted by changes in exchange rates.
- Risks that may be of significance for the fund are in particular: credit and counterparty risk, liquidity risk, custody risk, derivative risk and operational risk. Comprehensive information on the risks of the fund can be found in the prospectus and the information for investors pursuant to Section 21 AIFMG, Section II, chapter "Risk information".

ERSTE RESPONSIBLE STOCK GLOBAL

The fund employs an active investment policy and is not oriented towards a benchmark. The assets are selected on a discretionary basis and the scope of discretion of the management company is not limited. For further information on the sustainable focus of ERSTE RESPONSIBLE STOCK GLOBAL as well as on the disclosures in accordance with the Disclosure Regulation (Regulation (EU) 2019/2088) and the Taxonomy Regulation (Regulation (EU) 2020/852), please refer to the current Prospectus, section 12 and the Annex "Sustainability Principles". In deciding to invest in ERSTE RESPONSIBLE STOCK GLOBAL, consideration should be given to any characteristics or objectives of the ERSTE RESPONSIBLE STOCK GLOBAL as described in the Fund Documents.

Advantages for the investor

- Broadly diversified investment in equities in developed markets.
- Participation in ecologically, morally and socially operating companies.
- Active stock selection based on fundamental criteria.
- Opportunities for attractive capital appreciation.

Risks to be considered

- The price of the funds can fluctuate considerably (high volatility).
- Due to the investment in foreign currencies, the fund value can fluctuate due to changes in the exchange rate.
- Capital loss is possible.
- Risks that may be significant for the fund are in particular: credit and counterparty risk, liquidity risk, custody risk, derivative risk and operational risk. Comprehensive information on the risks of the fund can be found in the prospectus or the information for investors pursuant to § 21 AIFMG, section II, "Risk information".

ERSTE STOCK QUALITY

The fund employs an active investment policy and is not oriented towards a benchmark. The assets are selected on a discretionary basis and the scope of discretion of the management company is not limited. For further information on the sustainable focus of ERSTE STOCK QUALITY as well as on the disclosures in accordance with the Disclosure Regulation (Regulation (EU) 2019/2088) and the Taxonomy Regulation (Regulation (EU) 2020/852), please refer to the current Prospectus, section 12 and the Annex "Sustainability Principles". In deciding to invest in ERSTE STOCK QUALITY, consideration should be given to any characteristics or objectives of the ERSTE STOCK QUALITY as described in the Fund Documents.

Advantages for the investor

- Investment in a concentrated portfolio of quality stocks.
- Diversification of risks over several countries and industries.
- Opportunities for attractive value increase.

Risks to be considered

- The price of the funds can fluctuate considerably (high volatility).
- Due to the investment in foreign currencies, the fund value can fluctuate due to changes in the exchange rate.
- Capital loss is possible.
- Risks that may be significant for the fund are in particular: credit and counterparty risk, liquidity risk, custody risk, derivative risk and operational risk. Comprehensive information on the risks of the fund can be found in the prospectus or the information for investors pursuant to § 21 AIFMG, section II, "Risk information".