

Vontobel

# Quality Investing

Focus on predictable and  
resilient growth



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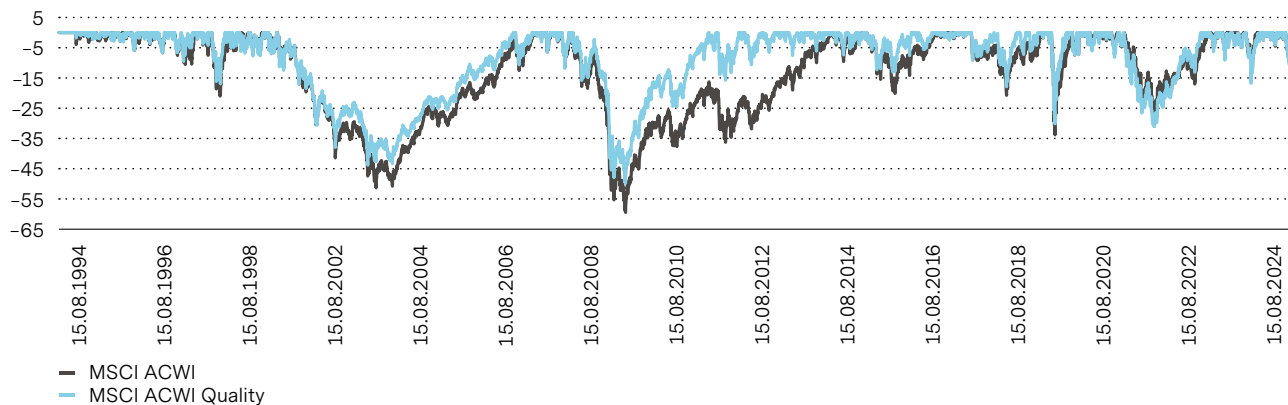
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# Quality Investing: Focus on predictable and resilient growth

Quality investing is typically associated with superior profitability and is often perceived as offering downside protection. Historically, this focus on profitability has indeed resulted in resilience, as shown in Figure 1, which

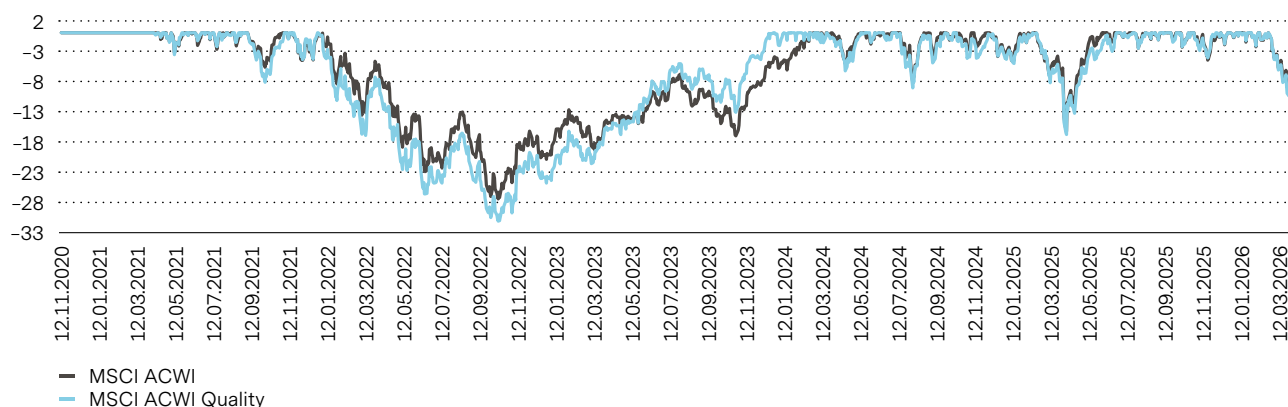
compares drawdowns for the broad-based global equity index, as measured by the MSCI All Country World Index (ACWI), and the quality index, as measured by the MSCI ACWI Quality.

**Figure 1: Quality has historically been resilient: max drawdowns over the past three decades August 15, 1994 – March 30, 2026**



**Figure 2: But over the last five years quality appears to be losing its resilience November 12, 2020 – March 30, 2026**

Max Drawdown over Last 5 Years



Source: Bloomberg as of March 30, 2026

However, this trend recently reversed when the quality index experienced a more significant pullback during the 2022 drawdown, the tariff-induced drawdown in April 2025, and the sell-off driven by the Iran conflict in early 2026 (Figure 2). It is impossible to determine whether these episodes were simply anomalies, but they highlight an important point: superior profitability alone does not translate to greater resilience or protection during periods of market stress. This gap between expectations and reality can leave investors vulnerable to unexpected risks.

Recognizing this dynamic is particularly relevant in today's global equity markets. Since late 2022, the AI narrative has fueled a powerful rally with only brief periods of pause. This has led to multiple expansion and record levels of market concentration, setting the stage for a more violent pullback when the music stops playing. When this happens, investors will likely turn to their quality allocations for stability and downside protection. However, not all quality portfolios are built to meet these expectations.

We believe that a portfolio's ability to provide resilience and downside protection ultimately depends on the specific inputs used in its construction process, whether through fundamental research or the factors used in passive quality indices. Adhering to a strict quality definition and maintaining a balanced mix of different types of quality within a portfolio are essential to achieve true resilience.



# Quality unpacked: not all quality investments are created equal

We believe that for quality to protect on the downside, one must take an active approach to uncovering companies that not only demonstrate superior profitability but also exhibit a high degree of predictability and stability in their earnings growth.

These characteristics should align with appropriate valuations, meaning that companies with high levels of growth, predictability, and durability can warrant a higher price point compared to those with high growth and more moderate earnings growth predictability. Ignoring valuations can leave investors vulnerable to significant pullbacks, especially if the predictability and durability factors are lacking. This can be the case with passive quality strategies, where portfolio construction may fail to consider valuations, an oversight that could be partially responsible for the lack of protection observed in the quality index during the last two significant downturns. These additional criteria are not as straightforward to understand as profitability, thus requiring active judgment.

Finally, and perhaps the least discussed piece of the pie, is portfolio construction. Ultimately a resilient portfolio capable of delivering attractive long-term growth through the market cycle is built on a balanced mix of different types of quality stocks, each playing a different role in the portfolio.

Certain stocks should act as the foundation, providing stability during turbulent times. However, there is a trade-off for stability and durability, which typically translates into a more moderate growth rate. These foundational stocks can be thought of as providing protection, much like a seatbelt, with the slower growth rate equivalent to an “insurance premium” for safeguarding the portfolio on a rainy day. Other stocks serve as the engine of the portfolio, driving the growth on a day-to-day basis.

As we navigate uncharted territory in the global equity markets, with many investors believing that we are moving to a new world order, we believe this approach to quality investing will become increasingly important.

# Striking the right balance of quality inputs: leaders, defenders, and opportunistic companies

When we delve into the universe of quality companies, defined as those exhibiting superior profitability, it becomes clear that there is a wide range of companies underneath the same umbrella. First, many companies with superior profitability lack predictability in earnings growth. At Quality Growth, this would generally preclude the name from inclusion until the predictability of the business improves.

Even among companies with a reasonable level of predictability, there is a wide range of quality names extending from various levels of growth, from moderate to high growth, to various levels of predictability. For example, some quality names may have elements of cyclical to their businesses.

The final consideration is valuation. We believe that a company’s level of growth and predictability of that growth should align with a sensible valuation.

To create the right balance of quality names, we categorize these variations into three investable categories,

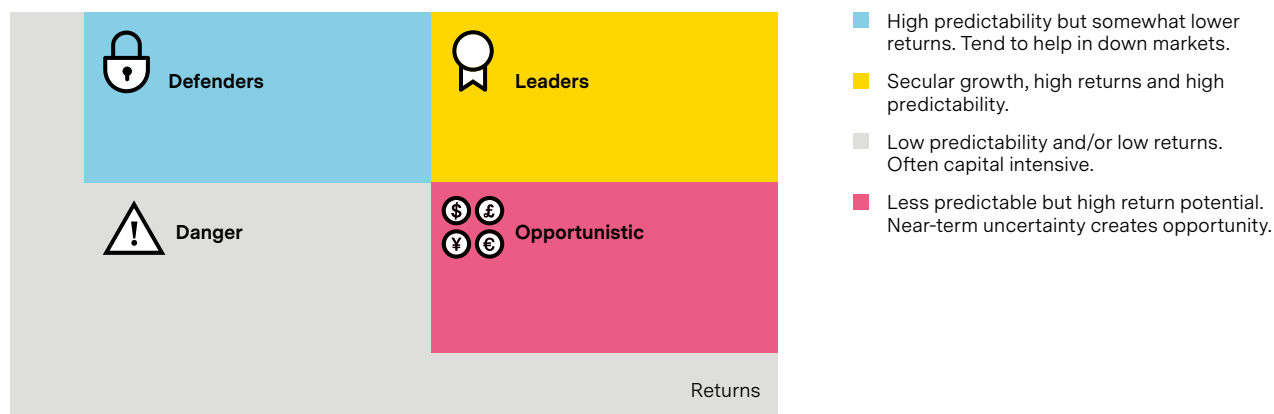
while avoiding companies that we deem in the “danger zone.” At Quality Growth, our definition of quality goes beyond traditional measures of superior profitability to also include predictable and sustainable earnings growth. The degree of predictability, however, will vary based on the category of the company.

- **Leaders:** higher growth “engines” of the portfolio, names exposed to secular drivers, typically at higher valuations
- **Defenders:** moderate growth, with high levels of durability and drawdown protection, the “seatbelts,” typically at lower valuations than leaders
- **Opportunistic:** high growth with a degree of cyclicity, lower predictability, but lower valuations, serve as the “accelerators”

**Danger zone:** Low predictability, lack of profitability; companies lacking a strong competitive advantage or moat, often capital intensive in nature.

**Figure 3: Optimizing predictability and returns in a quality portfolio**

Predictability



Source: Vontobel

Without the proper balance between these variations of quality, it can be difficult to achieve resilience. We believe the core of a quality portfolio should be allocated between Leaders and Defenders, as these companies can power portfolio performance in a predictable manner. Companies with these profiles enable growth alongside resilience, given the higher level of earnings predictability.

Leaders can drive attractive growth, often benefiting from secular drivers and offering high levels of predictability. However, these names tend to be more expensive and are limited in number. And despite their predictability, Leaders will still be exposed to a pullback in the event of an unforeseen shock.

Defenders offer more moderate growth than Leaders but offer products and services with more inelastic demand. This drives a very high level of stability in their earnings, making them critical for enhancing resilience. Defenders provide much-needed downside protection in the event of a market shock or economic slowdown.

Opportunistic exposures are viewed as complementary. While they can provide additional growth opportunities, we believe they should never account for too large a portion of the portfolio, as it can alter the risk metrics, increase volatility, and ultimately lead to greater downside exposure than desired.

Overall, we believe a well-constructed portfolio should seek a balance across these different types of quality. Achieving the right balance should result in a growth rate above the benchmark from a total return perspective (total return is defined as the earnings growth plus free cash flow yield for a company).

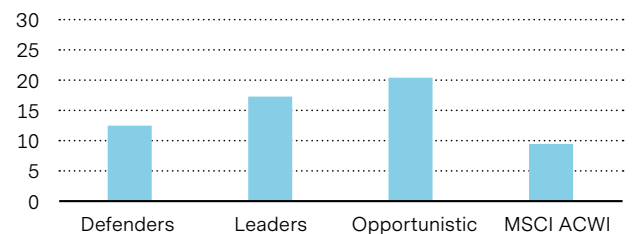
Valuation also plays an important role in building a portfolio, particularly within the framework of buckets. A company's level of predictability and growth must align with an appropriate valuation. For example, in the case of an Opportunistic name, the valuation should be lower than that of a Leader, given the lower predictability in earnings.

As a team, we consider valuation in a relative context, assessing companies based on the price we pay for each unit of growth. We divide the price-to-earnings (P/E) ratio by the total return. This allows us to compare two companies alongside each other and also against the benchmark. Through this comparison, an Opportunistic company should be cheaper than a Leader. In general, we aim to maintain a portfolio with a P/E to total return ratio that is comparable to or below the benchmark, ensuring that we are not overpaying for growth.

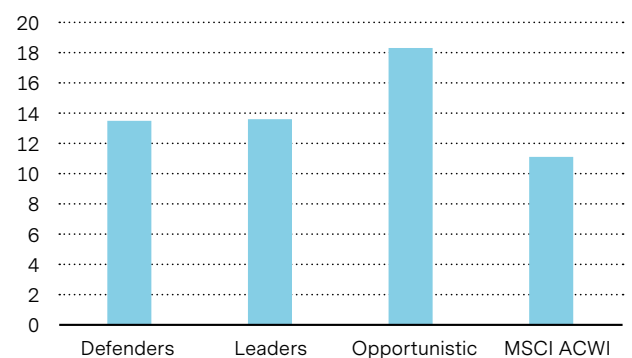
Growth and valuation characteristics for Leaders, Defenders, and Opportunistic companies in our Global Equity portfolio are evident in Figures 4–7 below.

**Figure 4: Some quality companies offer higher growth: Engines**

7 Year Historical Total Return, in %



7 Year Annualized Stock Price Performance, in %

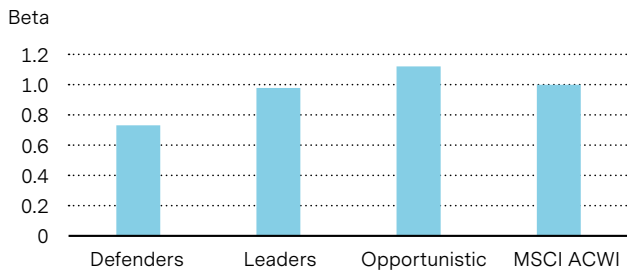
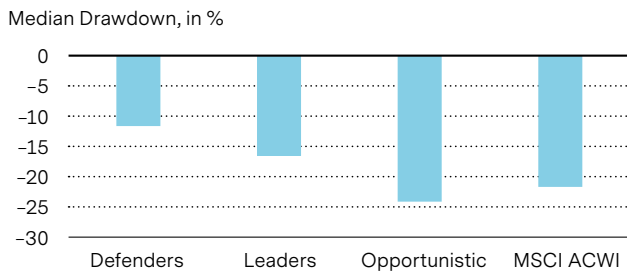


**Past performance is not indicative of future results.** Data based on a representative portfolio of the Vontobel Global Equity strategy. The basis upon which the representative portfolio was selected is this is the account which we believe most closely reflects current portfolio management style for the strategy. Information is supplemental to the Composite's GIPS Report provided later in this material.

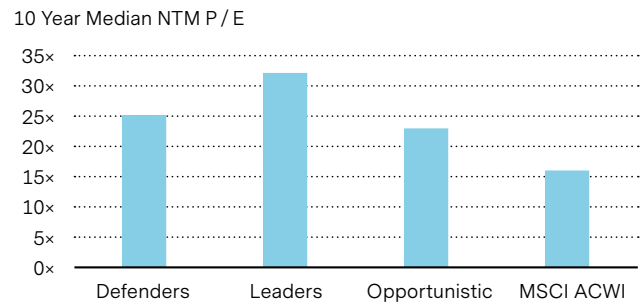
Source: FactSet, Vontobel, As of March 30, 2026.

**The delta between the growth of the Defenders vs Leaders is the “insurance” or seatbelt in an effort to ensure the portfolio is protected when the road gets bumpy.**

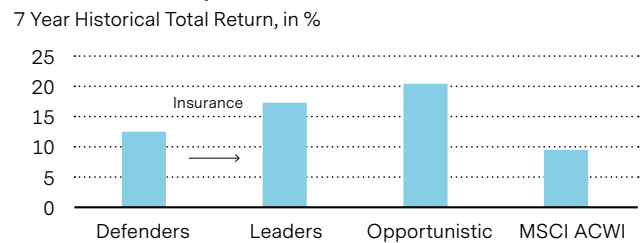
**Figure 5: Others offer downside protection: Seatbelts**



**Figure 6: Valuation is an important piece and must align with the risk / return profile of a name**



**Figure 7: The trade-off of lower growth for less risk, is ultimately the quality insurance**



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Source: FactSet, Vontobel, as of March 30, 2026

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Source: FactSet, Vontobel, as of March 30, 2026

# No free lunch: Understanding the opportunity cost of different types of quality

To achieve resilient growth and strong downside protection, we believe a portfolio must include a sizable allocation to Defenders, which can help to protect the portfolio during periods of turbulence. As noted above and reflected in the charts, these names provide solid draw-down protection and typically have lower Betas.

In normal market environments or during strong rallies, Defenders tend to lag due to their moderate growth rates. This trade-off must be accepted as the cost of “insurance” to prepare for volatile times. We see the merits of holding such names during periods of uncertainty or market sell offs, such as what was experienced in the tariff related uncertainty in the first four months of 2025.

In contrast, Leaders are expected to drive growth and provide upside exposure, generally performing well during market rallies. However, by nature, Leaders will be less immune than Defenders during a market correction due to the characteristics of their products and services.

Alongside the core exposure of Leaders and Defenders, growth can be accelerated by allocating to Opportunistic companies. They are typically quality businesses operating in more cyclical industries and their growth rates generally exceed those of Leaders. However, this comes with a trade-off. Opportunistic names have higher risk profiles and are the least predictable among the quality names we allocate to.

From a performance perspective, Opportunistic names tend to outperform Leaders and Defenders during strong speculative rallies, such as the one seen in the second half of 2025. However, when risk appetite shifts, these companies tend to be the most vulnerable to significant pull-backs. Because of this risk profile, we believe exposure to Opportunistic names should be limited in order to maintain the long-term resilience of a quality portfolio. As an active quality manager, we seek to skillfully navigate between these types of quality names to create a well-balanced portfolio.

# Case study: AutoZone vs Amazon vs TSMC

## Defender: AutoZone

AutoZone is a retailer of automobile replacement parts that operates in a duopoly, providing the company with a wide moat. AutoZone is a clear quality name, with high return on equity (ROE), strong margins, and a predictable stream of earnings growth due to the nature of the auto repair business—used cars always need repairs.

The replacement parts business tends to be naturally resilient during economic shocks, such as recessions. This resilience is driven by consumer behavior: in tough times, wallets get tighter, often leading to a reduced willingness and ability to purchase new cars. As a result, the average age of vehicles on the road increases, and older cars require more maintenance, which drives demand for replacement parts. From a miles-driven perspective, while there may be minor slowdowns during economic downturns, they are typically not significant enough to materially impact demand for replacement parts.

This resilience makes AutoZone a strong defensive business with effective drawdown protection, which is reflected in AutoZone's median drawdown over the last 7 years of -8 percent, delivering a positive return of 15 percent during this period. While its growth rate is decent, its attractiveness comes from its drawdown protection—a foundation during tough times.

## Leader: Amazon

Similar to AutoZone, Amazon has high profitability, stable growth and a wide moat. At a high level, both companies are quality names, but they play very different roles in a portfolio. Amazon has a higher growth profile, with a total return of about 24 percent. It offers more attractive growth than AutoZone but lacks the same defensive characteristics and will likely be more susceptible to pullbacks during downturns given the nature of its business. This is evident in its median drawdown of -13 percent over the last 7 years.

### Opportunistic: Taiwan Semiconductor Manufacturing Company (TSMC)

TSMC is a leading global semiconductor foundry with a total return of 35 percent over the last seven years, driven by its critical role in the AI buildout. The business can be impacted by a slowdown in AI capital expenditure and the cyclical nature of the semiconductor industry. During periods when the industry is in favor, TSMC can deliver attractive growth; however, its continued growth is less predictable than both that of Amazon and AutoZone. As a result, TSMC should be part of the smallest allocation in a portfolio, the Opportunistic names. Its risk profile is reflected in its median drawdown of -20 percent over the last seven drawdowns, making it the least resilient of the three names.

When comparing these three company profiles, we can see that Amazon is the most stable growth engine, TSMC offers some acceleration to the overall growth, but not without risk. Then AutoZone is additive to growth, but less so and comes with the added benefit of resilience and drawdown protection. While all three companies meet the criteria for quality, with superior profitability, their differing characteristics highlight how a mix of quality names can result in very different portfolio outcomes. If the goal of a quality portfolio is to deliver resilient growth over the cycle, it is critical to strike the right balance between Defenders, Leaders, and Opportunistic names.

Figure 8: Case study: AutoZone vs Amazon vs TSMC

	DEFENDER AUTOZONE	LEADER AMAZON	OPPORTUNISTIC TSMC
<b>Quality characteristics</b>	Wide moat: high return on equity (ROE), strong margins, and a predictable stream of earnings growth	Wide moat: high profitability, stable growth	Wide moat: patented manufacturing processes limits competitors, high growth, strong margins
<b>Resilience</b>	Replacement parts business tends to be naturally resilient during economic shocks	Will likely be more susceptible to pullbacks during downturns	
<b>Median drawdown over past 7 years</b>	-8%	-13%	-20%
<b>Total returns over past 7 years</b>	15%	24%	35%

Source: Company financials

Past performance is not indicative of future results.

# Conclusion: Quality is far more nuanced than what appears on the surface

To build a resilient quality portfolio that can withstand uncertainty while still potentially delivering attractive growth, one must carefully allocate across the different types of quality, consider opportunity costs, and understand the role each company plays, while striking the right balance for the time in the cycle.

Valuation is also essential. Overpaying for a Defender will likely result in lackluster performance, while an unwillingness to pay a premium for a Leader could result in a portfolio that trails its benchmark.

In a strong bull market, such as the one we have experienced in the last three years, where uncertainty prevails in the backdrop, we believe maintaining an allocation to Defenders is essential. This offers some protection if the AI narrative unravels or if the environment shifts unexpectedly. Ultimately, there is no free lunch in investing and, in our view, portfolio construction should not be thought of any differently.

## Global Equity Composite performance as of 3.31.2026

ANNUALIZED RETURNS AS OF 3.31.2026	YTD	1 YEAR	5 YEAR	10 YEAR
Vontobel Global Equity (Gross)	-5.36	3.91	4.70	9.88
Vontobel Global Equity (Net)	-5.29	3.71	4.35	9.47
MSCI ACWI (Total Return Net Dividends)	-3.20	20.01	9.49	11.33

Benchmark: MSCI AC World Net Total Return Index  
Composite base currency: USD  
Reporting currency: USD  
Composite inception date: 04/01/1994  
Composite creation date: 05/03/2004

PERIOD	COMPOSITE NET RETURN (%)	COMPOSITE GROSS RETURN (%)	BENCHMARK RETURN (%)	COMPOSITE 3-YEAR STD DEV (%)	BENCHMARK 3-YEAR STD DEV (%)	NUMBER OF AC-COUNTS	COMPOSITE ASSETS (USD M)	TOTAL FIRM MARKET VALUE (USD M)	ASSET WEIGHTED DISPERSION (%)
2025 Jan-Dec	8.63	9.02	22.34	10.73	11.18	10	5263	18898	0.44
2024 Jan-Dec	10.88	11.28	17.49	15.51	16.2	16	8498	23479	0.98
2023 Jan-Dec	20.8	21.25	22.2	16.34	16.27	17	8603	24633	0.68
2022 Jan-Dec	-20.49	-20.19	-18.36	19.49	19.86	19	7774	23788	0.44
2021 Jan-Dec	14.2	14.63	18.54	15.7	16.84	21	12102	36017	0.23
2020 Jan-Dec	19.97	20.42	16.25	16.48	18.13	21	11650	38334	0.34
2019 Jan-Dec	28.33	28.82	26.6	10.33	11.22	20	9053	34699	0.37
2018 Jan-Dec	-4.46	-4.09	-9.41	10.22	10.47	22	7262	30756	0.31
2017 Jan-Dec	29.62	30.18	23.97	9.31	10.36	24	8630	38453	0.56
2016 Jan-Dec	5	5.5	7.86	10.31	11.06	27	7106	32799	0.25

The composite's gross rates of return are presented before the deduction of investment management fees, other investment-related fees, and after the deduction of foreign withholding taxes, brokerage commissions and transaction costs. An investor's actual return will be reduced by investment advisory fees. The composite's net rates of return are presented after the deduction of investment management fees, brokerage commissions, transaction costs, other investment related fees and foreign withholding taxes. Results portrayed reflect the reinvestment of dividends and other earnings.

### Performance Disclosure

Vontobel Asset Management, Inc. ("Vontobel") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Vontobel has been independently verified for the periods from January 1, 2001 through December 31, 2024. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Global Markets Equity composite has had a performance examination for the periods from January 1, 2001 through December 31, 2024. The verification and performance examination reports are available upon request.

Vontobel Asset Management, Inc. is an investment advisory firm registered with the Securities and Exchange Commission, under the Investment Advisers Act of 1940, as amended, and a subsidiary of Vontobel Holding AG, Zurich, Switzerland. For GIPS Compliance purposes, Vontobel Asset Management, Inc. is defined to include all institutional accounts managed by the Quality Growth boutique, excluding wrap accounts and private client assets managed in previous years.

The Global Markets Equity Composite includes all discretionary accounts that invest mainly in equity or equity-linked securities of issuers located in the developed and emerging markets in the United States, Europe, Asia and Latin America. This composite consists of accounts that are not required to be at least 75 percent hedged at all times, and these accounts can hold as many as 70 stocks at any given time. The minimum account size for this composite is USD 1 million. The composite was created on May 3, 2004 and inception on April 1, 1994.

The firm maintains a complete list and description of composites which are available upon request.

Policies for valuing investments, calculating performance and preparing GIPS Reports are available upon request.

Total firm assets as of 12.31.2025: USD 18,898mil.; 12.31.2024: USD 23,479mil.; 12.31.2023: USD 24,633mil.; 12.31.2022: USD 23,788mil.; 12.31.2021: USD 36,017mil.; 12.31.2020: USD 38,334mil.

Results of the composite are shown compared to the MSCI All Country World Index (the "MSCI ACWI"), an unmanaged index of stocks traded in major world markets. The benchmark is used for comparative purposes only and generally reflects the risk or investment style of the investments in the composite. The index is a free float-adjusted market capitalization index that is designed to measure global developed and emerging markets equity performance. With approximately 2,645 constituents, it is a market-weighted aggregate of 23 Developed Markets and 24 Emerging Markets country indexes that collectively represent major markets of the world. The index is calculated on a total return basis with net dividends reinvested. It reflects withholding taxes, but not fees and other investment expenses, and is expressed in U.S. Dollars. Investments made by Vontobel for the portfolios it manages according to respective strategies may differ significantly in terms of security holdings, industry weightings, and asset allocation from those of the MSCI ACWI. The index has not been examined by an independent verifier.

Net composite performance is presented after the deduction of foreign withholding taxes. Capital gains, dividends and interest income received may be subject to withholding taxes imposed by the country of origin and such taxes may not be recoverable.

Performance is expressed in U.S. Dollars. Returns include the effect of foreign exchange rates. Returns are presented gross and net and include the reinvestment of all income. Gross returns are presented before the deduction of investment management fees and other investment-related expenses, and after deduction of transaction costs, brokerage commissions and foreign withholding taxes. Net returns are presented after the deduction of investment management fees, other investment-related expenses, transaction costs, brokerage commissions and foreign withholding taxes. Investment management fees are actual fees according to each portfolio's fee schedule. Since January 1, 2016, fees are accrued monthly and do not include performance fees. Prior to 2016, net returns were calculated with the actual fees recorded on a cash basis; from inception to October 2013 excluding performance fees, from November 2013 to December 2015 including performance fees. Withholding tax rates for global indices are the maximum rates of the company's country of incorporation applicable to institutional investors who do not benefit from double taxation treaties. Withholding taxes as reflected in the composites may differ from those reflected in the indices.

The standard annual management fees charged by Vontobel for the Composite are: 0.75 percent on the first USD 100 million, 0.65 percent over USD 100 million. Certain accounts may have negotiated management fees, which may be higher or lower than the standard fee schedule. Investment advisory fees are further described in Part 2 of its Form ADV.

As of July 1st, 2025, Messrs. Ramiz Chelat and Rob Hansen are portfolio managers for the Global Equity Strategy. There are no changes to the composite strategy as a result of the management change.

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Investment risks include, but are not limited to, the following: Equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. There is no guarantee that investment strategies will work under all market conditions and investors should evaluate their ability to invest for the long term, especially during periods of market downturns.

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