

Monthly commentary / 31.07.2020
Vontobel Asset Management

Vontobel Fund - Emerging Markets Equity

Approved for institutional investors in: AT, CH, DE, ES, FI, FR, GB, IT, LI, LU, NL, NO, PT, SE, SG (Professional Investors only)

Market developments

Global equity markets continued to move upwards in July. Emerging markets, helped by investors' growing confidence in China's economic recovery, outperformed developed markets. In the US, equity shares also strengthened as company earnings beat expectations. However, tit-for-tat diplomatic measures between the US and China towards the end of the month rattled markets as investors braced for a deterioration in trade and political relations. Further, second quarter GDP readings showed contractions in the US and Europe as markets feared a stalling recovery in developed economies. In Europe, the agreement of a €750 billion EU rescue package and positive news on a COVID-19 vaccine drove shares higher. However, sentiment worsened again when a spike in COVID-19 cases prompted renewed travel restrictions and further woes for the travel and leisure industries. The MSCI Europe Index generated slightly negative returns (in euros) for the month."

Portfolio review

Purchases

MTR CORP HKD1

MTR is the sole rail operator in Hong Kong. Through the company's monopolistic position it has been able to create a unique rail and property business where MTR rents out retail space in its many stations throughout the city. The company also has a special relationship with the government of Hong Kong whereby MTR has access to land which it auctions off to developers for more housing in Hong Kong. The company then builds retail centers near these population clusters and earns more money from these ventures. We believe MTR provides a steady/growing dividend with the ability to grow earnings at a double digit rate with adequate returns on capital as well.

NAVER CORPORATION KRW500

Naver is the largest online portal in Korea and has built a powerful ecosystem by being the only player in Korea that is dominant in search, shopping, payment, and contents – its services designed to complement one another through a virtuous circle. In our view, this unique position affords Naver a structural advantage that is difficult for others to replicate.

Sales

ZEE ENTERTAIN ENT INR1 - We reallocated capital to better opportunities.

Performance analysis

The Comm. Services and Information Technology sectors were positive contributors to relative performance over the month. The Consumer Discretionary and Materials sectors detracted from relative performance. On a country basis, Taiwan and China contributed to relative performance, while Republic of Korea and Brazil detracted from performance.

TOP3 Contributors:

TAIWAN SEMICON MAN TWD10

Intel announced that they will procure 180,000 chips from TSMC, as Intel is struggling with the EUV manufacturing process. Taiwan Semiconductor Manufacturing Co. (TSMC) pioneered the dedicated foundry industry. A foundry is a facility dedicated solely to chip manufacturing - from PC semiconductors to memory chips to digital signal processors - as opposed to a fabless semiconductor company, which focuses on chip design and does no manufacturing. TSMC has more than a dozen facilities in which it can produce the equivalent of over 10 million 12-inch wafers. The company has consistently captured 100% of industry

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profits. This is mainly due to better execution of a highly complex manufacturing process. TSMC has been able to patent its manufacturing processes, limiting the ability of competitors to copy its success. Semiconductors have continued to proliferate well beyond the realm of PC to where most manufactured goods now contain some silicon. Volume growth has been in the 15% range and will likely continue on this path in the future. The cost of building a fabrication plant continues to increase as chip manufacturing scales down to smaller geometries. As a result of the rising capital intensity of the business, as well as the increasing execution risks associated with manufacturing at the nanoscale level, barriers to entry continue to increase.

ADR ALIBABA GROUP HOLDING LTD SPON ADS EACH REP 8 ORD SHS ADS

From a fundamental standpoint, there is nothing company-specific to report. Alibaba is the leading e-commerce platform operator in China with a dominant market share in terms of overall gross merchandise volume (GMV). It is multiples larger in GMV than the second biggest player in China, JD.com. Alibaba's key advantage versus competitors is that it has the largest number of vendors, which in turn attracts a massive pool of buyers. Other markets like Japan and the U.S. have shown that it is difficult to displace a player who has a significant supplier/merchant advantage. This allows buyers to have access to the widest base of vendors and available inventory at the most competitive prices in almost any category. Further, by segmenting the market to lower-priced merchants (Taobao) and more established/ trustworthy merchants in Tmall, it can cater to a wider base of consumers. There is also the tailwind from e-commerce penetration in China still being in relatively early stages. Operating as a platform business, Alibaba has maintained a higher ROE than its global peers.

HCL TECHNOLOGIES INR2

From a fundamental standpoint, there is nothing company-specific to report. HCL Technologies is a global information technology company, which offers solutions across various industries, including financial services, manufacturing, consumer services, public services and health care. Like most IT services companies, HCL Technologies is a low capital intensity business with a high ROE. While still providing a broad portfolio of services, the company has a niche in providing infrastructure management for enterprises who wish to reduce dependency on internal departments to manage their investments in tech infrastructure. As companies wish to free up their IT budgets to focus on investing in the latest innovations, they turn to companies like HCL who provide best practices and lower operating costs. As communications infrastructure has continued to improve, it is more viable to, at least in part, manage infrastructure remotely from lower cost locations.

TOP3 Detractors:

KASIKORNBANK PLC THB10 (ALIEN MKT)

Kasikornbank's stock price pulled back in July due to Covid-19's severe impact on the Thai economy. Kasikornbank is one of the largest banks in Thailand. It has a strong deposit franchise. Kasikornbank, one of the largest banks in Thailand, is a strong banking franchise with expertise in SME banking. Kasikornbank engages in the commercial banking business, securities business, and other related businesses. The company was founded in 1945 and is headquartered in Bangkok, Thailand. The bank is trading at attractive valuation levels, and should be able to have ROA and ROE recovery going forward.

NCSOFT CORP KRW500

NCsoft's share price retreated as a competitor's game unseated one of NC's game in its #2 spot, but the game has reclaimed its position since then. NCsoft ("NC") is a leading online and mobile game developer and publisher, based in Korea, that specializes in massively multiplayer online role-playing video games (or MMORPGs). We believe the company has characteristics that support greater revenue potential and higher barriers to entry. With a 20-year track record of delivering durable MMORPG titles, NC should be able to grow market demand and drive margin uplift as the Asian mobile games market continues to shift towards internet-protocol (IP)-based MMORPGs. The company also has a substantial net cash position that can support growth and cash return. We expect NC to deliver total shareholder return in the mid to high teens over the next 5 years.

MTR CORP HKD1

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Outlook

Equity markets have continued to rise as investors look past the deepening economic crisis and the global pandemic. The current climate requires investors to be more discerning. Through our quality growth approach, we seek to identify businesses that

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would be resilient in downturns and prosper over the long term. By drilling down into company fundamentals, we look for the predictable long-term earnings power that can help reward investors.

Performance (in %)

Net returns	Rolling 12-month net returns					
	Fund	Index	Start date	End date	Fund	Index
USD						
MTD	9.2	8.9	01.08.2019	31.07.2020	1.5	6.5
YTD	-1.8	-1.7	01.08.2018	31.07.2019	3.7	-2.2
2019	18.3	18.4	01.08.2017	31.07.2018	-0.7	4.4
3 years p.a.	1.5	2.8	01.08.2016	31.07.2017	16.0	24.8
5 years p.a.	4.4	6.1	01.08.2015	29.07.2016	2.3	-0.7
10 years p.a.	5.3	3.3	Index: MSCI Emerging Market TR net			
Since launch	5.6	3.6				
p.a.						
Launch Date		30.03.2007	Share class: I			
			ISIN: LU0278093082			

Past performance is not a reliable indicator of current or future performance. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in the rates of exchange between currencies.

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Past performance is not a reliable indicator of current or future performance.

Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in rates of exchange between currencies. The value of the money invested in the fund can increase or decrease and there is no guarantee that all or part of your invested capital can be redeemed.

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