Vontobel Fund – Sustainable Emerging Markets Debt

Marketing document for institutional investors in: AT, CH, DE, ES, FI, FR, IT, LI, LU, NO, SE.

Investors in France should note that, relative to the expectations of the Autorité des Marchés Financiers, this fund presents disproportionate communication on the consideration of non-financial criteria in its investment policy.

Market developments

August was a volatile month for fixed income, but global bonds eventually recovered their July losses. During the first half of the month, long-end core global yields rose, with 30-year US Treasury yields briefly climbing above 5.3% on August 17, their highest level since 2002. The Middle East conflict and elevated hydrocarbon prices added to concerns that inflation could stay high for longer. Then, US Treasury Secretary Scott Bessent announced that the Treasury would at least double its liquidity-support buybacks in the 10- to 30-year sector starting September 9. This brought some relief to fixed income in the second half of August, even as the factors behind higher yields remained in place. Hydrocarbon prices stayed elevated, there was no clear resolution to the Middle East conflict, and concerns over fiscal discipline in developed markets continued. On August 28, US Federal Reserve (Fed) Chair Kevin Warsh returned to a more hawkish stance in his Jackson Hole address. He acknowledged that recent inflation readings had been better than expected, but said inflation was still well above the Fed's 2% target. He also stressed that the policy rate is the central bank's primary policy tool.

By the end of the month, US 10-year yields were marginally lower at 4.7%, while 10-year Bund yields were up 8 basis points (bps) at 3.3%. In early September, the August jobs report showed that the US economy created 162,000 jobs on the month, almost triple expectations, and net revisions to the previous two months added +55,000, erasing the previously reported negative monthly print. We believe a September rate hike would be justified and would help the Fed regain credibility.

Risk assets performed well. The MSCI World rose 2.9%, led by emerging markets (EM) ex-China (+4.6%), while the Euro Stoxx lagged (+0.8%) amid elevated hydrocarbon prices. Brent was only slightly higher (+0.4%) but ended the month at an elevated USD 90 per barrel. European gas contracts rose 17.7%, reaching their highest level since early 2023, although they were still several times below their 2022 peak. Gold rallied sharply after Bessent's interventionist comments as the debasement trade regained ground. Warsh's hawkish Jackson Hole address later took some of the momentum out of the rally, but gold still ended the month 9.8% higher.

Overall, global fixed income recovered in August, with the Bloomberg Global Aggregate rising by 0.6%. High-yield (HY) bonds outperformed investment-grade (IG) bonds. The GABI HY rose 1.2%. All EM fixed income indices performed well.

EM hard-currency sovereign bonds (EMBIG Diversified) rose by 1.1%, with HY rising 1.2% and outperforming its IG counterpart (+0.9%). Africa was the best-performing region (+1.5%), while EM Europe lagged (+0.6%).

Venezuela's defaulted bonds (+5.6%) were the best-performing sovereigns of the month following US President Donald Trump's announcement of a USD 100 billion oil investment commitment covering 17 oil fields with Venezuelan oligarch Alejandro Betancourt, who has been investigated by US, Swiss, and Spanish authorities for embezzlement. Very little is known about the deal, but preliminary figures suggest a lower-than-expected share of proceeds for the Venezuelan government. Separately, oil major Chevron announced a USD 7 billion investment to more than double its current oil production to 600,000 barrels per day, while Reuters reported a further USD 1.5 billion in commitments by ENI and smaller oil companies.

Defaulted Lebanese bonds (+4%) were the second-best performers of the month. Parliament approved amendments to the bank resolution law in line with the International Monetary Fund's (IMF) recommendations. Although the law still requires presidential approval, it is a step in the right direction toward an eventual IMF program and debt restructuring. Negotiations between Lebanon and Israel ended without much progress on Israel's withdrawal from southern Lebanon, but the ceasefire continues to hold, and further negotiations are expected to continue.

Most African sovereigns also performed very well, gaining 1.5% on a weighted average index basis. Kenya (+2.7%) was the third-best performer despite elevated oil prices, a move that appears to have been driven by strong risk appetite and relatively wide spreads. In total, seven African nations ranked among the top 10 performers of the month.

Argentina (-3.1%) was the worst performer of the month as investors grew concerned about President Javier Milei's declining popularity (37% according to Atlas Intel, down from 40%), even though the next presidential election is more than a year away. A slower pace of FX purchases by the central bank despite a growing trade surplus also concerned external debt investors. In early September, Milei asserted the country's claim over the Falkland Islands amid a Trump-UK spat. This differed from Milei's position as a presidential candidate and could be interpreted as an attempt to regain popularity by appealing to nationalist sentiment. The country's trade surplus stood at USD 2.3 billion in July and nearly USD 24 billion over the previous 12 months, the largest surplus ever recorded, thanks to rising hydrocarbon production and elevated prices.

Senegal (-2.8%) was the second-worst performer of the month. The government announced that it would restructure its foreign-currency debt through a version of the Common Framework,

while the IMF announced that it had reached a staff-level agreement on a USD 2.2 billion program. The announcement was not surprising, as the heavily indebted country had been in distress since April 2025, when the hidden debt scandal began. The decision not to restructure local-currency debt did not surprise us either, although it did catch some analysts off guard and is likely to result in lower recoveries for external debt.
Ukraine (-1.3%) was the third-worst performer, amid escalating attacks on both sides and growing doubts that the conflict can be brought to a negotiated end anytime soon.

Portfolio review
We maintained the fund's average credit risk at BBB-, consistent with the benchmark rating. We did reduce the overweight to high-yielding bonds though. We kept the portfolio's average duration close to the benchmark, but we switched to a small underweight position. We increased exposure to Argentina, Ecuador, and Uruguay. We added a position in short Ghanaian sovereign bonds, seeing it as an attractive carry opportunity. We increased exposure to Ukrainian sovereign bonds. We reduced exposure to financial issuers in the United Arab Emirates. We sold some sovereign bonds in Kenya and Sri Lanka. We sold the position in EUR-denominated sovereign bonds in Chile and reduced exposure to US-denominated quasi-sovereign bonds. In Brazil, we switched into longer sovereign bonds on a rather steep spread curve, which led to a lower country exposure, but similar weighted spread duration.

Performance analysis
The fund outperformed its benchmark by 0.16% in August (net, I share class). The outperformance was driven by both a favorable country allocation and bond selection in similar magnitudes. The overweight to Ivory Coast and Benin, as well as the preference for EUR-denominated bonds contributed the most to relative performance. The portfolio's selection of supranational bonds also performed well. The overweight to Argentina contributed negatively to relative performance. The portfolio missed some performance in Bahrain and Egypt: It has no exposure to these countries, as respective sovereign bonds are excluded under the sustainability framework.

Outlook
Last month, we described the US-Iran war as intermittent, and that pattern continued in August. We warned that we did not yet see a stable agreement that would definitively end the US-Iran war and that further trade disruptions were possible, as the US and Iran did not seem close to a peace deal. This risk has materialized, with additional trade disruptions and military strikes taking place at the end of August. As of early September, Iran claims that an arrangement to operate the Strait of Hormuz together with Oman is days from completion, but this seems at odds with the US position. That said, several reports suggest that there is an increasing volume of oil trade going dark (crossing the strait with transponders off). US Energy Secretary Chris Wright said that 8-9 million barrels a day are passing through the Strait of Hormuz with transponders off, down from 20 million barrels per day before the war, but multiple times higher than official estimates. The oil market has repriced accordingly, and oil prices remain above USD 90 per barrel. Meanwhile, US labor data has come in more resilient than expected, with 162,000 jobs created in August and upward revisions to the previous two months, adding to inflation concerns. In this context, we believe a Fed hike at the September 16 meeting would help restore policy credibility, with markets currently pricing in around a 60% probability of a hike. Investors also expect a September hike by the European Central Bank. If the Fed keeps rates unchanged, we expect the debasement trade to regain momentum, which could provide further upside for EM fixed income, particularly local-currency assets.
That said, risk appetite remains elevated, and EM credit ratings remain on an upgrade trajectory. Except for Senegal's downgrades (to Caa2 by Moody's and CC by S&P, respectively), which came right before and after the restructuring announcement and had no price impact on the bonds, we continue to see more sovereigns being upgraded. August saw numerous sovereign upgrades: Benin to Ba3 by Moody's, Ecuador to B by S&P, Tajikistan to B+ by S&P, Kazakhstan to BBB by S&P, Pakistan to B3 by Moody's, and in the first week of September, Qatar to AA by Fitch. Moreover, even oil-importing countries that have been more negatively affected by the current environment have been more resilient than expected. FX reserves in countries such as Kenya, Sri Lanka, and Pakistan, have remained relatively stable despite higher hydrocarbon import prices. Turkey's central bank has also managed to stabilize its FX reserves after drawing down reserves significantly in March. Thus, we believe the credit trajectory for EM remains positive. Coupled with elevated global risk appetite, we believe this may support relatively compressed EM fixed income spreads despite elevated geopolitical risk.

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Fund characteristics

Fund name	Vontobel Fund – Sustainable Emerging Markets Debt
ISIN	LU2145396086
Share class	I USD
Benchmark	J.P. Morgan ESG EMBI Global Diversified Index
Inception date	30.9.2020

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	0.9%	0.7%
YTD	2.9%	1.5%
1 year	7.6%	6.3%
3 yrs p.a.	9.9%	8.8%
5 yrs p.a.	1.7%	1.1%
10 yrs p.a.	–	–
ITD p.a.	3.9%	1.9%

Time period	Fund	Benchmark
2025	14.1%	13.3%
2024	6.4%	5.7%
2023	11.0%	10.3%
2022	-20.0%	-18.9%
2021	3.7%	-2.3%
2020	–	–
2019	–	–
2018	–	–
2017	–	–
2016	–	–

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, e.g. 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.

Investment risks
- Using derivatives generally creates leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
- Asset-backed and mortgage-backed securities, and their underlying receivables are often intransparent. The sub-fund may also be subject to a higher credit and/or prepayment risk.
- CoCo-Bonds may entail significant risks such as coupon cancellation risk, capital structure inversion risk, call extension risk.
- Securities with a lower credit quality means a higher risk that an issuer may fail to meet its obligations. The investment value may fall if an issuer's credit rating is downgraded.
- Distressed securities have a higher credit and liquidity risk as well as uncertainty in any potential bankruptcy proceedings.
- The sub-fund also includes sustainability criteria in its investment process. This may mean that the sub-fund's performance is more positive or negative than a conventionally managed portfolio.
- Investments in emerging markets entail increased liquidity and operational risks as these markets tend to be underdeveloped and more exposed to political, legal, tax and foreign exchange control risks.
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