Monthly commentary / 30.06.2020

Vontobel Asset Management

Vontobel Fund - mtx China Leaders

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

Market developments

MSCI China advanced 8.4% in June, outperforming EM and World by 1.4% and 5.8%, respectively. Despite rising second-wave infection concerns globally, MSCI China has now erased all COVID-19-related losses and returned to positive gains (+2%) for the year. For China, the rise of newly confirmed cases in Beijing in June was quickly contained and new cases have begun trending down.

Portfolio review

In June, we initiated new positions in Hong Kong Stock Exchanges, Sino Biopharmaceutical and Vipshop Holdings and sold China Petroleum & Chemical Corporation. As a result, the number of portfolio holdings increased to 27. The largest positions were Tencent, Alibaba, Netease, China Construction Bank, and China Resources Land.

Performance analysis

The fund underperformed its reference index in June among other things due to negative sector allocation in IT as well as negative stock selection in real estate and utilities. The biggest negative contribution came from China Gas.

Outlook

Despite an apparent calming of the situation, China's economy continues to suffer alongside other emerging economies. We performed further stress-test simulations on all holdings, assuming a longer-term bear case scenario. We tried to gauge the direct impact on customers and to assess the disruptions to supply chains and distribution channels.

We believe the market will stay in risk-off mode with investors pricing the risks correctly again once fundamentals no longer show a deterioration in the number of new infections outside China. In economic terms, developments such as the number of Chinese workers returning to work will be important to watch.

Apart from the virus scare, we believe Chinese equities remain attractive. We list several potential positive catalysts below.

Operations – We expect industry leaders to weather the Covid-19 storm better and to emerge stronger. After a three-year period of growing returns on invested capital (ROIC) in emerging markets, we now expect ROIC to decline in 2020 before any recovery in 2021. The duration of lockdowns across the globe and the resumption of economic activity will determine whether the rebound will be in the form of a "V", a "U", or even a "W". In our opinion, companies with leading business models will get even better and emerge from the crisis stronger, as they have done during other crises. They will widen the gap to companies with questionable business models and a poor track-record of operational performance. As always, we will remain focused on "leaders" generating the highest cash flow relative to peers (first-quartile ROIC) and boasting the strongest competitive position (first-quartile industry position), because this should enable them to take a larger share of the economic profit pools in which they operate. Moreover, the companies in our fund have stronger balance sheets than the reference index in general and weaker competitors in particular (e.g. net debt/equity ratio of -16% for our portfolio and +24% for the MSCI China 10/40), which will help them weather this storm.

Valuation – Current levels are attractive in historical context. Every time the valuation of the MSCI China index was at the current level in 12-month-trailing price-to-book terms (in a recessionary environment, we prefer this measure to earnings-based metrics), the index was up within 12 months (80% hit rate) with an average performance of +14%. Typically, in the first phase of a snap-back rally, "value" outperforms "growth". However, in the second phase of a potential recovery, we expect higher-quality, faster-growing and better-positioned companies to continue to outperform in a lower-growth recessionary environment. Many quality companies, for example in India, are now at more attractive valuation levels.

Momentum – Expect continued negative earnings revisions as consensus estimates are still too high. According to JPMorgan, 2020 earnings estimates for Chinese equities have fallen by 10% so far. It is difficult to estimate to what extent an economic recovery is already priced in. The first and second-quarter reporting season should bring more clarity on earnings estimates. Generally, a further setback for the stock market cannot be ruled out.

Growth – Industry leaders are better positioned in a low-growth world. We believe the better competitive position of the fund companies will enable them to grow at a faster pace than the average in China, according to our assumptions.

Moreover, loose monetary and fiscal policies resulting in low or sub-zero interest rates increase the focus on higher-yielding assets such as equities. Ideas revolving around the possibility of direct purchases of stocks by the US Federal Reserve, for example, also support equity markets.

Risk – Capital market signals suggest "peak risk" may be behind us. The gradual decline of the "fear" index VIX since its March 16 peak suggests that the worst risk aversion may have passed (always subject to news about new infections). The leading companies that we own in the fund have superior risk profiles on average, leading to a beta below 1 (currently at 0.92), coupled with a lower volatility of roughly 100 basis points over the past three years (16.5% vs 17.6%). We believe this crisis is perceived as event-driven. This means the market looks set to face less pressure than in the case of a cyclical or structural crisis, hence could recover at a faster pace.

Flows – The worst seems over unless virus and recession fears re-emerge. The Indiscriminate selling of equities that started mid-February was accompanied by market outflows of 84 billion US dollars (0.5% of total assets under management). Emerging market funds were hit particularly hard with outflows reaching 30 billion US dollars (2.5% of emerging market assets under management). This stopped towards the end of March, and we are optimistic that the worst is over. Outflows may resume should the health crisis see lockdowns extended well into the third and fourth quarter of 2020, which however, is not our base case assumption.

Performance (in %)

Net returns			Rolling 12-month net returns			
USD	Fund	Index	Start date	End date	Fund	Index
MTD	6.4	8.5	01.07.2019	30.06.2020	0.6	10.2
YTD	-6.4	1.5	01.07.2018	28.06.2019	-5.4	-6.0
2019	21.5	23.2	01.07.2017	29.06.2018	20.1	20.8
3 years p.a.	4.5	7.8	01.07.2016	30.06.2017	42.1	32.2
5 years p.a.	6.3	4.9	01.07.2015	30.06.2016	-16.5	-23.4
10 years p.a.	8.8	6.1	Index: MSCI China Index 10/40 TRN in USD			
Since launch p.a.	7.2	5.0				
Launch Date		25.06.2008	Share class: I			
			ISIN: LU0278092514			

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.

Disclaimer

This marketing document was produced for institutional clients, for distribution in AT, CH, DE, ES, FI, FR, GB, IT, LI, LU, NO, PT, SE, SG (Professional Investors only).

This document is for information purposes only and does not constitute an offer, solicitation or recommendation to buy or sell shares of the fund/fund units or any investment instruments, to effect any transactions or to conclude any legal act of any kind whatsoever. Subscriptions of shares of the fund should in any event be made solely on the basis of the fund's current sales prospectus (the “Sales Prospectus”), the Key Investor Information Document (“KIID”), its articles of incorporation and the most recent annual and semi-annual report of the fund and after seeking the advice of an independent finance, legal, accounting and tax specialist. This document is directed only at recipients who are institutional clients such as eligible counterparties or professional clients as defined by the Markets in Financial Instruments Directive 2014/65/EC (“MiFID”) or similar regulations in other jurisdictions.

In particular, we wish to draw your attention to the following risks: Investments in derivatives are often exposed to the risks associated with the underlying markets or financial instruments, as well as issuer risks. Derivatives tend to carry more risk than direct investments. Investment universe may involve investments in countries where the local stock exchanges may not yet qualify as recognized stock exchanges.

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.

Interested parties may obtain the above-mentioned documents free of charge from the authorized distribution agencies and from the offices of the fund at 11-13 Boulevard de la Foire, L-1528 Luxembourg, the paying agent in Austria Erste Bank der oesterreichischen Sparkassen AG, Graben 21, A-1010 Vienna, the representative in Switzerland: Vontobel Fonds Services AG, Gotthardstrasse 43, 8022 Zurich, the paying agent in Switzerland: Bank Vontobel AG, Gotthardstrasse 43, 8022 Zurich, the paying agent in Germany: B. Metzler seel. Sohn & Co. KGaA, Grosse Gallusstrasse 18, 60311 Frankfurt/Main, the paying agent in Liechtenstein: Liechtensteinische Landesbank AG, Städtle 44, FL-9490 Vaduz. Refer for more information on the fund to the latest prospectus, annual and semi-annual reports as well as the key investor information documents (“KIID”). These documents may also be downloaded from our website at vontobel.com/am.In Spain, funds authorized for distribution are recorded in the register of foreign collective investment companies maintained by the Spanish CNMV (under number 280). The KIID can be obtained in Spanish from Vontobel Asset Management S.A., Spain Branch, Paseo de la Castellana, 95, Planta 18, E-28046 Madrid or electronically from atencionalcliente@vontobel.es. The KIID is available in Finnish. The KIID is available in French. The fund is authorized to the commercialization in France since 02-FEB-07. Refer for more information on the funds to the Document d’Information Clé pour l’Investisseur (DICI). The funds authorized for distribution in the United Kingdom can be viewed in the FCA register under the Scheme Reference Number 466625. This information was approved by Vontobel Asset Management SA, London Branch, which has its registered office at Third Floor, 22 Sackville Street, London W1S 3DN and is authorized by the Commission de Surveillance du Secteur Financier (CSSF) and subject to limited regulation by the Financial Conduct Authority (FCA). Details about the extent of regulation by the FCA are available from Vontobel Asset Management SA, London Branch, on request. The KIID can be obtained in English from Vontobel Asset Management SA, London Branch, Third Floor, 22 Sackville Street, London W1S 3DN or downloaded from our website vontobel.com/am. Refer for more information regarding subscriptions in Italy to the Modulo di Sottoscrizione. For any further information: Vontobel Asset Management S.A., Milan Branch, Piazza degli Affari 3, 20123 Milano, telefono: 0263673444, e-mail clientrelation@vontobel.it. The KIID is available in Norwegian. Please note that certain subfunds are exclusively available to qualified investors in Andorra or Portugal. The KIID is available in Swedish. The fund and its subfunds are not available to retail investors in Singapore. Selected subfunds of the fund are currently recognized as restricted schemes by the Monetary Authority of Singapore. These subfunds may only be offered to certain prescribed persons on certain conditions as provided in the “Securities and Futures Act”, Chapter 289 of Singapore. The fund is not authorized by the Securities and Futures Commission of Hong Kong. It may only be offered to those investors qualifying as professional investors under the Securities and Futures Ordinance. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution and if you are in any doubt about any of the contents of this document, you should obtain independent professional advice. This information was approved by Vontobel Asset Management Asia Pacific Ltd., which has its registered office at 1901 Gloucester Tower, The Landmark 15 Queen’s Road Central, Hong Kong.

This document is not the result of a financial analysis and therefore the “Directives on the Independence of Financial Research” of the Swiss Bankers Association are not applicable. Vontobel Asset Management AG, its affiliates and/or its board of directors, executive management and employees may have or have had interests or positions in, or traded or acted as market maker in relevant securities. Furthermore, such entities or persons may have executed transactions for clients in these instruments or may provide or have provided corporate finance or other services to relevant companies.

The MSCI data is for internal use only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data (the “MSCI Parties”) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Although Vontobel Asset Management AG (“Vontobel”) believes that the information provided in this document is based on reliable sources, it cannot assume responsibility for the quality, correctness, timeliness or completeness of the information contained in this document. Except as permitted under applicable copyright laws, none of this information may be reproduced, adapted, uploaded to a third party, linked to, framed, performed in public, distributed or transmitted in any form by any process without the specific written consent of Vontobel. To the maximum extent permitted by law, Vontobel will not be liable in any way for any loss or damage suffered by you through use or access to this information, or Vontobel’s failure to provide this information. Our liability for negligence, breach of contract or contravention of any law as a result of our failure to provide this information or any part of it, or for any problems with this information, which cannot be lawfully excluded, is limited, at our option and to the maximum extent permitted by law, to resupplying this information or any part of it to you, or to paying for the resupply of this information or any part of it to you. Neither this document nor any copy of it may be distributed in any jurisdiction where its distribution may be restricted by law. Persons who receive this document should make themselves aware of and adhere to any such restrictions. In particular, this document must not be distributed or handed over to US persons and must not be distributed in the USA.

Vontobel Asset Management AG
Gotthardstrasse 43, 8022 Zürich
Switzerland
T +41 58 283 71 11, info@vontobel.com

vontobel.com/am