Vontobel

Monthly commentary / 30.06.2020
Vontobel Asset Management

Vontobel Fund - Clean Technology

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

Summary

- Rally continues but dampened by new Covid-19 outbreaks
- European Union's taxonomy for sustainable investment products approved by European Parliament
- Fund outperformance helped by allocation effects
- Stock selection strong in NXP and ASML, Guangdong a detractor
- Well-positions to meet the European Union's new sustainable finance disclosure obligations

Market developments

Global equities started off strongly in June, before giving up about half of the gains due to a resurgence of new Covid-19 cases in parts of the US and elsewhere. Investors continued to embrace risk in June. While the first leg of the rally was driven by investor sentiment and liquidity, it continued this month with the third driver of equity returns, i.e. growth, with a number of indicators turning increasingly positive. This was particularly true for the US with a flurry of strong economic data surprises. Economists and analysts revised their estimates up sharply to price in a more rapid recovery in economic activity. Moreover, copper prices, a barometer of global growth, rose strongly in June. Conversely, policymakers continued their efforts to alleviate the impact of the pandemic, with central banks cutting rates further in June.

First pitched as an idea by the High Level Expert Group on Sustainable Finance, the European Union's taxonomy for sustainable investment products got the final seal of approval from European Parliament on June 18, meaning its legal foundation is now set in stone. The regulation will determine which financial investments can be labelled environmentally sustainable. For a business to be eligible, it must be proven to substantially support one of the aims of this EU taxonomy, but also do no significant harm to another one, and not breach minimum social safeguards.

Portfolio review

The number of stocks in the portfolio remained unchanged at 66. In anticipation of policy support for energy-related renovation, we added to companies exposed to building technologies such as Daikin and Johnson Controls. We also increased our position in TeamViewer. While growth in corporate subscribers continues strongly, existing customer increasingly use the services and start subscribing for additional functionalities. Management commented that new customers tend to stay after trial periods, a favorable development of the net retention rate. Furthermore, to reduce risks within the portfolio, we added to utilities such as American Water Works and Suez.

Performance analysis

The fund continued to outperform the reference index. In June, this was mostly thanks to allocation effects, contrary to the situation in May. While we benefited from an inherently low exposure to the weak sectors healthcare and energy, we offset the poor sector performance of utilities with favourable stock selection, which led to a positive contribution. Conversely, within the high-performing information technology sector in June, where we have a large exposure, our stock selection was a detractor. However, selection contributed very well within the industrials sector, particularly our holding in NXP, and ASML. NXP benefited from improving macroeconomic data as well as a gradual recovery of global automotive demand. ASML, little affected by the pandemic so far, should see rising demand for its equipment as memory chip manufacturers like Micron have reported positive results pointing to strong trends in data centre/cloud and solid DRAM and NAND memory sales in the second half of 2020. On the other hand, Guangdong caused the biggest detraction amid the uncertainty regarding a renegotiation of its most important water contract in the coming months. While depressed revenues from its department store and hotels are widely expected, low electricity sales and toll road income may also persist for longer.

Outlook

The EU taxonomy is an important step for investors; while the hurdles for asset managers selling sustainable investment products will rise, corporations will also have to report on their businesses. For activities to be eligible, they must be related to one of six areas: climate change mitigation and climate change adaptation, sustainable use and protection of water and marine resources, the circular economy, pollution prevention and control, or the fostering of biodiversity. These business activities are

very well aligned with the pillars of our fund. We believe that many of the fund's holdings are already active in these businesses, and often among the top leaders. As such, a large portion should be eligible under the new reporting requirement. In addition, the companies should benefit from the EU Green Deal's stated investment goals. Therefore, the Vontobel Fund - Clean Technology should be well-positioned in this environment.

Performance (in %)

Net returns			Rolling 12-month net returns			
EUR	Fund	Index	Start date	End date	Fund	Index
MTD	2.2	1.7	01.07.2019	30.06.2020	10.0	4.3
YTD	-1.4	-5.8	01.07.2018	28.06.2019	9.6	9.0
2019	36.7	30.0	01.07.2017	29.06.2018	0.1	8.5
3 years p.a.	6.4	7.2	01.07.2016	30.06.2017	19.0	15.1
5 years p.a.	6.9	6.7	01.07.2015	30.06.2016	-2.9	-2.5
10 years p.a.	10.4	10.9	Index: MSCI World Index TR net EUR			
Since launch p.a.	12.4	11.8				
Launch Date		17.11.2008	Share class: I ISIN: LU0384405949			

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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