Monthly commentary / 31.08.2020
Vontobel Asset Management

Vontobel Fund - Global Equity Income

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 equities continued their ascent in August as investors shook off concerns about a new spike in Covid-19 infections. US equity performance was underpinned by the Federal Reserve's pledge to tolerate higher levels of inflation, cementing expectations that interest rates would remain at, or close to, zero for a protracted period. Information technology and consumer discretionary sectors drove gains over the month. In Europe, an increase in COVID-19 infections over the summer led to the reimplementation of restrictions in the UK, France and Germany. European equities rebounded from July's underperformance but lagged US markets. In mid-August, Russia became the first country to approve a vaccine, while later in the month China began inoculating workers against the virus. Positive steps towards controlling the virus longer term, as well as lower fatality rates, gave emerging market equity shares a moderate boost.

Portfolio review

We did not make any major changes to the portfolio this month.

Performance analysis

The Utilities and Industrials sectors were positive contributors to relative performance over the month. The Consumer Staples and Consumer Discretionary sectors detracted from relative performance. On a country basis, the United Kingdom and Republic of Korea contributed to relative performance, while then United States and the Netherlands detracted from performance.

TOP3 Contributors:

SAP SE

SAP pre-released earnings results in October which reiterated previous guidance on the benefits of cost-cutting measures and improvements to their software products. SAP is a German based global Enterprise Resource Planning (ERP) software company. Within large organizations around the world SAP has a near monopoly position. ERP runs core operations and hence is difficult and expensive to replace which leads to very high renewal rates. As the industry moves to a cloud and software-as-a-service (SaaS) model revenues will become even more predictable. The company reported quarterly results where they showed strong indications that they are following through with the promise that the previous heavy investment in cloud and SaaS will start to trend down. Hence margins and cash flow are improving. Additionally dilution from stock options is declining as well.

TAIWAN SEMICON MAN TWD10

From a fundamental standpoint, there is nothing company-specific to report. 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 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.

BANK PEKAO SA PLN1.00

From a fundamental standpoint, there is nothing company-specific to report. In our opinion, Pekao is a well-run bank with a strong deposit franchise and high capital ratio. We believe its growth will accelerate in the next few years. Bank Pekao SA is one of the largest financial institutions in Central and Eastern Europe. The bank provides retail, corporate and investment banking services to individuals and corporate clients. It operates through the following business segments: Retail Banking, Private Banking, Corporate and Investment Banking, and Assets and Liabilities Management and Other. The company was founded in 1929 and is headquartered in Warsaw, Poland.

TOP3 Detractors:

CME GROUP INC COM STK

From a fundamental standpoint, there is nothing company-specific to report. CME Group's stock price was up in 2Q19 because volatility returned to the market, and derivatives trading volumes surged. CME Group, the world's leading derivatives exchange group, facilitates trading across a full spectrum of derivative instruments — from equity indices to agriculture and from energy to interest rates. As a vertically-integrated futures exchange and clearing house, CME is a near-monopoly in the trading and clearing of the instruments offered on its platform. As a result, CME enjoys EBITDA margins of more than 70%. The company is also very cash flow-generative, with free cash flow conversion of more than 90%. The management is shareholder-focused and has consistently returned excess free cash flow to shareholders through share buybacks and dividends. In addition, longer term, CME should benefit from the regulatory push towards clearing more derivative transactions through central clearing houses.

STARBUCKS CORP COM

From a fundamental standpoint, there is nothing company-specific to report. Starbucks is a well-recognized global brand that implies quality products and a quality experience. Aside from its extremely strong footprint in the U.S., China also represents a significant growth opportunity. While beverages constitute about 75% of revenues, food (such as the company's popular bistro box) now constitutes 20% of sales. The company exited its relationship with Kraft, which had distributed packaged coffee to grocery chains, and now Starbucks has high aspirations for its own consumer products group. Starbucks generates strong free cash flow, which it has used to increase the dividend and repurchase shares.

ADR AMBEV SA SPONSORED ADR

Ambev was a weak performer this month after reporting Q3 results below expectations. Ambev is the dominant Brazilian brewer and also has a strong presence in non-alcoholic beverages. It has high market share in other Latin American countries as well as Canada. Ambev has high margins, and generates significant amounts of cash. It pays a hefty dividend and is not levered.

Outlook

The events of this year caught most investors off guard. We expect volatility to remain high due to economic uncertainty and the fiscal and monetary stimulus that continues to drive equity markets. We don’t believe it is possible to time the markets. Through our quality growth approach, we seek to identify businesses that will benefit from long-term secular growth drivers and that have the resilience to withstand a downturn. Our aim is a portfolio of attractively valued companies with the strength to outperform and compound returns for investors over the long term.

Performance (in %)

Net returns			Rolling 12-month net returns			
USD	Fund	Index	Start date	End date	Fund	Index
MTD	3.8	6.1	01.09.2019	31.08.2020	2.0	16.5
YTD	-3.7	4.7	01.09.2018	30.08.2019	3.7	-0.3
2019	18.9	26.6	01.09.2017	31.08.2018	1.9	11.4
3 years p.a.	2.5	9.0	01.09.2016	31.08.2017	n/a	n/a
5 years p.a.	n/a	n/a	01.09.2015	31.08.2016	n/a	n/a
10 years p.a.	n/a	n/a	Index: MSCI All Country World TR net			
Since launch p.a.	6.4	11.5				
Launch Date		13.07.2007	Share class: I			
			ISIN: LU0278093322			

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

vontobel.com/am