Monthly commentary / 30.06.2020
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 equity markets continued their recovery in June as ongoing stimulus measures further fuelled returns. The MSCI Asia-Pacific ex Japan outperformed with an 8.19% return for the month with the broader MSCI Emerging Markets also up strongly as China stocks reached new 2020 highs. Shares shook off concerns of a renewal of tensions with the US as economic indicators improved. European equities strengthened slightly from May, as unlocking measures across the continent prompted hopes of a summer season economic boost. Having led the way in previous months, the US lagged as a spike in COVID-19 infections in southern states delayed re-opening in Florida and Texas, while investors also worried that the US response to China's imposition of a new security law in Hong Kong could provoke retaliation.

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

Performance analysis
The Real Estate and Utilities sectors were positive contributors to relative performance over the month. The Health Care and Consumer Discretionary sectors detracted from relative performance. On a country basis, Hong Kong and Japan contributed to relative performance, while the United States and Spain detracted from performance.

TOP3 Contributors:

SAP SE

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

LINK REAL ESTATE INVESTMENT

Link REIT is the largest public landlord in Hong Kong with mostly retail properties (community and neighborhood shopping centers) as well as car parks. The company also has expanded into China by way of two malls and one office building. At its inception, Link REIT purchased local retail centers in Hong Kong from the government at bargain prices. Link REIT transformed these properties from a collection of poorly run, unsophisticated shops into a modernized portfolio of local retail centers at the doorsteps of 40% of Hong Kong's population. Link has continued its asset enhancement strategy to drive higher rents while it has also embarked on an asset recycling program, selling some properties and using the proceeds to repurchase shares, buy back debt and invest in other retail properties in tier one cities in China as well as properties in other countries.

HONG KONG EXCHANGES & CLEAR

From a fundamental standpoint, there is nothing company-specific to report. Hong Kong Exchanges & Clearing Limited (HKEx) owns and operates the only stock exchange and a futures exchange in Hong Kong, as well as their related clearing houses. Over market cycles, the company should grow faster than the market index due to market expansion, product innovation and operating leverage. HKEx provides the trading platforms for a range of cash and derivatives products and the facilities for processing trades. The company operates its business through five segments: Cash, Equity & Financial Derivatives, Commodities, Clearing and Platform & Infrastructure.

TOP3 Detractors:

CME GROUP INC COM STK

CME Group underperformed because of concerns that trading volumes of interest rates futures (30%+ of their revenues) may be depressed over the short to medium term. This is due to the Fed's policy of keeping short-term interest rates near zero for an extended period of time. 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.

MEDTRONIC PLC COMMON STOCK STOCK

MDT's June underperformance likely reflected concerns over a second wave of COVID19. We view a potential second wave impact as more limited given more regional impacts, and continue to see MDT's business mix as defensible longer-term given the medically necessary nature of its portfolio. Medtronic is a global medical device manufacturer that has leadership positions in the pacemaker, defibrillator, orthopedic, diabetes management and other medical markets. Its business is categorized into three main groups: Cardiac and Vascular, Restorative Therapies, and Diabetes. Medtronic is well positioned to grow within the medical device industry, because demand for its mainstay acute and critical care products is not easily crimped by recession, health care reform or cost-cutting pressures.

JOHNSON & JOHNSON COM USD1

There was no material news in June, and JNJ's underperformance likely reflected a shift out of more defensive names after strong relative performance early in the year. Johnson & Johnson (JNJ) is a diversified healthcare conglomerate with a strong presence in pharma, medical devices, and consumer health care products. In our view, the company offers a steady and dependable growth profile with diversification and a strong balance sheet adding to the company's defensiveness. Growth is currently being led by the pharma business, where JNJ is outperforming peers given strong franchises in immunology and oncology. Medical devices and consumer are steady growth businesses, and the company is taking measures to improve performance. We believe valuation is attractive given the durable and defensive profile of the business.

Outlook

Earnings estimates have been beaten down for 2020, while 2021 earnings should still be below 2019 levels. The market rebound might indicate that either investors are looking through to 2022, or more likely are responding to short-term news around COVID-19 and stimulus measures. In the case of a severe second wave, the market recovery could prove fleeting. In that case, we believe high quality stocks that have secular growth behind them should do well. And active managers can use volatility as an opportunity to take advantage of the swings in the market.

Performance (in %)

Net returns			Rolling 12-month net returns			
USD	Fund	Index	Start date	End date	Fund	Index
MTD	0.9	3.2	01.07.2019	30.06.2020	-6.6	2.1
YTD	-11.0	-6.3	01.07.2018	28.06.2019	6.6	5.7
2019	18.9	26.6	01.07.2017	29.06.2018	-0.1	10.7
3 years p.a.	-0.2	6.1	01.07.2016	30.06.2017	n/a	n/a
5 years p.a.	n/a	n/a	01.07.2015	30.06.2016	n/a	n/a
10 years p.a.	n/a	n/a	Index: MSCI All Country			
Since launch p.a.	4.3	8.6				
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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