

Monthly commentary / 30.06.2020
Vontobel Asset Management

Vontobel Fund - Asia Pacific Equity

Approved for institutional investors in: AT, CH, DE, ES, FR, GB, IT, LI, LU, NL, 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

Purchases

NETEASE INC COMSTK

Netease has run the two most successful and longest running video games in the Chinese market, which still continue to grow even after over almost 15 years in operations. Over the last couple of years, management has successfully made the transition to mobile gaming with its strong development team and solid base of IP. There has been a significant investment over the last two years to further bolster its game design capabilities which is now starting to pay off with a growing pipeline of new titles. Additionally the company has continued to increase its presence overseas especially in Japan and also runs games for Activision Blizzard and Microsoft in China. Netease is one of only a handful of Chinese US-listed ADRs to pay out a consistent dividend in addition to regular share buybacks. The sale of its ecommerce business enables the company to refocus on the core video game business.

ASIAN PAINTS LTD COM STK

The Indian paint and coatings producer, Asian Paints, is a strong franchise that has carved out significant competitive advantages which we believe is likely to endure for many years. In our view, the company will not only benefit from macro tailwinds but also from its wide moat that is fueled by the combination of its sticky dealer network, its supply chain network, preeminent brands and lowest cost in country production. Asian Paints' growth and competitive advantages should translate into double digit EPS growth and high returns on capital for many years to come.

Sales

N/A

Performance analysis

The Financials and Comm. Services sectors were positive contributors to relative performance over the month. The Information Technology and Consumer Staples sectors detracted from relative performance. On a country basis, China and Australia contributed to relative performance, while India and Republic of Korea detracted from performance.

TOP3 Contributors:

TENCENT HLDGS LIMITED COMMON STOCK

From a fundamental standpoint, there is nothing company-specific to report. Tencent Holdings is a major Internet platform in China with a strong presence in online gaming, instant messaging, and is one of the country's largest web portals. The company

For institutional investors only/not for public viewing or distribution

has been successful in providing popular services to attract new users and creating a network effect to maintain existing users. There is growing expectation that the company will be able to successfully monetize its OTT application, WeChat, through advertising revenue. Online gaming is the largest contributor to revenue, but Tencent also generates sales through fee-based social networks, advertising and e-commerce. The gaming revenues benefit from operating the dominant social networking platform by directing traffic to the gaming platform. This has translated into strong sales, as well as earnings growth.

WULIANGYE YIBIN CO 'A'CNY1 (STOCK CONNECT)

From a fundamental standpoint, there is nothing company-specific to report. Wuliangye is the second largest baijiu state-owned enterprise in China. Baijiu is a uniquely Chinese fiery white spirit with an alcohol content of around 52%. The company's main brand is Wuliangye. The company's results are mainly driven by their High Priced Liquor segment which accounts for 71% of revenues. In the premium market, Kweichow Moutai Co., Ltd. ("Moutai") commands a 55% share and Wuliangye a 30% share. Wuliangye's sales and earnings are growing at a rapid clip. Double-digit volume growth, mix upgrades and pricing could result in 15% earnings per share growth for a number of years. The company has strong financials and zero long-term debt. Wuliangye has steadily increased its dividend payout ratio to near 50% today, has over 35 billion RMB in cash on its balance sheet and generates free cash flow.

HDFC BANK LTD INR1

From a fundamental standpoint, there is nothing company-specific to report. HDFC Bank is one of the leading private sector bank in India and a core holding of ours. HDFC Bank is a high-quality Indian private sector bank which has been a cornerstone investment in the portfolio for many years. The bank has delivered solid growth while maintaining high credit and underwriting standards. HDFC Bank has a strong deposit franchise and powerful technology backbone that should allow it to grow at a slightly faster rate than the industry.

TOP3 Detractors:

KANGWON LAND INC KRW500

At the end of May, the reopening of the casino's mass floor was delayed again. There was no other fundamental news during June. Kangwon is the only domestically licensed casino for South Koreans. It owns the largest casino in Korea and the only one where Korean nationals can legally gamble.

S-1 CORPORATION

S-1 underperformed in June largely because its stock fell less heavily than peers (hence the stock price saw less of a rebound). There was a Covid19-related slowdown in new subscription growth in 1Q20 to 1% qoq but overall the business remained resilient with operating growth of 4% in Q1. S-1 is the leading player in security services in Korea, with a market share of 60%. The company provides residential and commercial security installation and monitoring services. We think S1 is executing well by achieving 8-10% subscriber growth consistently over the last few years. We believe this can continue as there is further room for security services penetration growth. Overall, we expect low double digit EPS growth with a growing cash balance that provides potential for an increase in the payout ratio over time.

ITC INR1

From a fundamental standpoint, there is nothing company-specific to report. ITC is India's dominant tobacco franchise with brands that extend across the price spectrum. Volumes are resilient to price hikes, helping the company achieve steady earnings growth. Cigarettes are only a small fraction of total tobacco consumption in India, which should lead to a long runway of growth as consumers trade up to cigarettes with increased income. British American Tobacco (BAT) is a large minority owner of the company, and ITC has access to BAT's innovation pipeline, global industry knowledge and international brands.

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	8.2	8.2	01.07.2019	30.06.2020	-0.8	-0.3
YTD	-4.1	-6.1	01.07.2018	28.06.2019	6.4	0.8
2019	18.0	19.2	01.07.2017	29.06.2018	9.2	9.6
3 years p.a.	4.8	3.3	01.07.2016	30.06.2017	18.2	25.0
5 years p.a.	5.5	4.3	01.07.2015	30.06.2016	-4.1	-10.3
10 years p.a.	7.1	5.9	Index: MSCI All Country Asia Pacific Ex-Japan TR net			
Since launch p.a.	5.7	4.6				
Launch Date		04.04.2007	Share class: I ISIN: LU0278091540			

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, FR, GB, IT, LI, LU, NL, 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: 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 French. The fund is authorized to the commercialization in France since 09-JAN-04. 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 Fund and its subfunds are included in the register of Netherland's Authority for the Financial Markets as mentioned in article 1:107 of the Financial Markets Supervision Act ("Wet op het financiële toezicht"). 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