Monthly commentary / 30.06.2020
Vontobel Asset Management

Vontobel Fund - US Equity

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

Summary

- The performance of the fund was positive in June but lagged the S&P 500.
- The Information Technology and Materials sectors were positive contributors to relative performance over the month.
- The Health Care and Financials sectors detracted from relative performance.
- The fund was overweight consumer discretionary and consumer staples relative to the benchmark. The fund has zero exposure to energy, real estate and utilities at the end of June.

Market developments

Global equity markets continued their recovery in June as ongoing stimulus measures further fueled 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

MOTOROLA SOLUTIONS INC

Motorola Solutions provides communication infrastructure, devices, software and services to enterprises and governments worldwide. Motorola Solutions has an extensive list of products that is critical to various functions of the government's or businesses' communication needs. It strives to remain ahead of its peers through extensive R&D. The company has also added capabilities in command center and video solutions with the intention of capturing more spend as it sells into the same group and leverages the existing business and brand. The core business has high switching costs given the mission critical nature of the solution, and sees customers gravitate toward proven, reliable, branded solutions.

SALESFORCE COM INC COM STK

salesforce.com (CRM) is a software company and a pioneer in creating the SaaS business model as well as an early user of now common offerings like free trial and the cloud. CRM's offerings are broad and include its Sales cloud, Service cloud, Platform cloud, Marketing cloud, Ecommerce cloud and Integration cloud. We believe, CRM is a highly recognizable brand with a strong and loyal following. By enabling productivity gains and value through mission critical functions of a business, we feel, CRM has become an important part of any company trying to stay competitive.

Sales

N/A

Performance Analysis

TOP3 Contributors:

AMAZON COM INC COM

From a fundamental standpoint, there is nothing company-specific to report. Amazon is the leading player in ecommerce in North America, and has leading positions in several markets in Europe, as well as India and Japan. Amazon was able to do this by offering very competitive pricing, free shipping for Prime members, and convenience. Amazon also has the leading position globally in Cloud services with AWS.

MICROSOFT CORP COM

From a fundamental standpoint, there is nothing company-specific to report.Once defined by its reliance on a PC-centric world, Microsoft has successfully transformed into more of a cloud first company. The company has built Azure into a leading public cloud provider, with natural strengths in hybrid cloud and ability to sell to enterprises. In addition, the shift to cloud computing is driving growth in its traditional franchises, as the company is shifting to more of a SaaS (software as a service) model. Under CEO Satya Nadella, we believe MSFT has become a much more open technology company that is now able to go after larger, addressable markets. In our view, MSFT offers an attractive combination of durable franchises and strong earnings growth.

ADOBE SYS INC COM

From a fundamental standpoint, there is nothing company-specific to report.Adobe is a leading software solutions provider in the content creation and digital marketing space. Adobe's advantage comes from a comprehensive offering of services (e.g., well-established and well-known like Photoshop) that companies, individuals or anyone engaged in creating digital content, can easily access. In our opinion, its broad offering in the content creation business is unrivaled and is a nice complement to the digital marketing space where Adobe allows users to tailor marketing campaigns across all channels. As a key player in the fast growing digital content and digital marketing space, we believe Adobe continues to deliver high and reliable growth with a highly recurring revenue base.

TOP3 Detractors:

ROSS STORES INC COM

From a fundamental standpoint, there is nothing company-specific to report. Ross Stores Inc. is a US based off-price retailer which operates two separate store brands: Ross Dress for Less and dd's Discounts. The company sells apparel, accessories, footwear, and home goods through its retail locations at deep discounts. Ross is able to guarantee these deep discounts through their merchandising team's expertise in acquiring either over produced or cancelled goods directly from vendors. As of August 2019, Ross operated 1,772 stores and retained a long term goal of operating 3,000 stores, giving them roughly a 14 year runway for store count growth at their current real estate expansion rate (90.3 new stores per year on average). In the off-price market, Ross controls roughly 24% of the market share, yet in the broader apparel retail market Ross only possesses ~3.1% of total revenues, highlighting the white-space that off-price retail has in the apparel retail market, especially as the decline of department stores continues. Ross's stores have one of the lowest average household income customers among the off-price retailer market ($64k average HH income) and their stores play heavily into the “treasure hunt” retailing concept. The treasure hunt concept, paired with lower average HH income leads to a high frequency of customer visits with the average customer visiting their stores 3-4 times a month.

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.

BOSTON SCIENTIFIC CORP COM

From a fundamental standpoint, there is nothing company-specific to report. We believe Boston Scientific offers attractive exposure to faster growing categories and products in the medical device space. Its cardiovascular business combines leading positions in more established categories, plus major innovation such as Watchman (prevents clots from atrial fibrillation). The Med-Surg business is a durable grower that benefits from underlying demand growth, fragmented markets, and emerging market penetration. The business already enjoys solid topline growth and margin expansion, and should benefit from increased flexibility around capital allocation.

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	0.1	2.0	01.07.2019	30.06.2020	5.3	7.5
YTD	-4.2	-3.1	01.07.2018	28.06.2019	14.3	10.4
2019	30.6	31.5	01.07.2017	29.06.2018	13.5	14.4
3 years p.a.	11.0	10.7	01.07.2016	30.06.2017	20.4	17.9
5 years p.a.	12.1	10.7	01.07.2015	30.06.2016	7.7	4.0
10 years p.a.	14.6	14.0	Index: S&P 500 - TR			
Since launch p.a.	8.8	8.5				
Launch Date		16.03.2007	Share class: I ISIN: LU0278092605			

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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