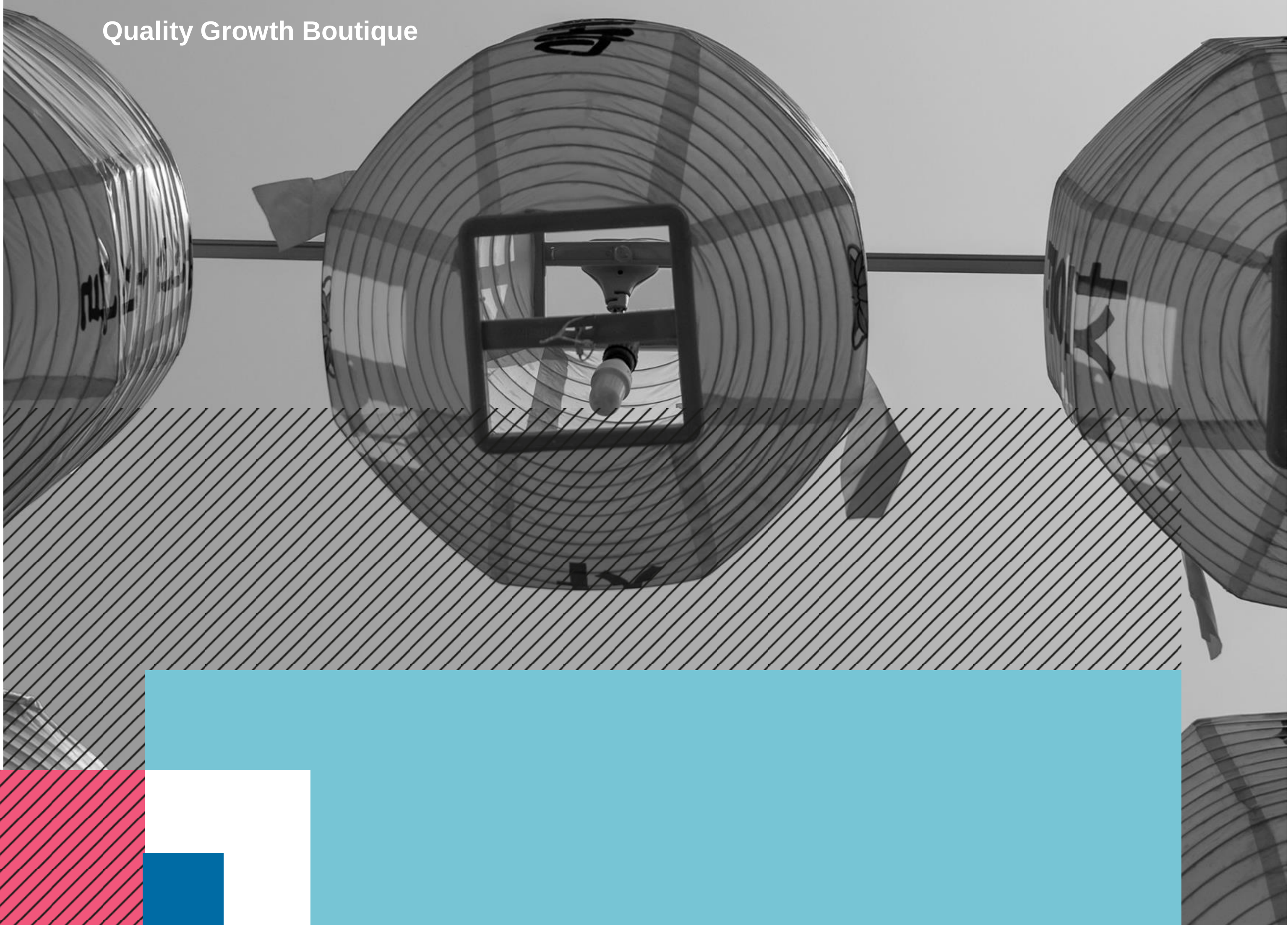
Vontobel

Vontobel Fund – Asia Pacific Equity

Investment Commentary 2Q 2020

Quality Growth Boutique

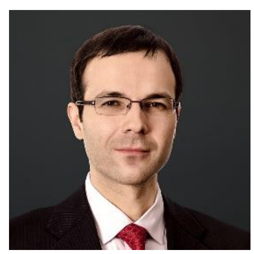


Asset Management

Approved for institutional investors in: AT, CH, DE, ES, FR, GB, IT, LI, LU, NL, PT, SE, SG (professional investors).

Brian Bandsma
Executive Director
Portfolio Manager
22 years in industry
18 years with Vontobel

Jin Zhang, CFA
Executive Director
Portfolio Manager
20 years in industry
15 years with Vontobel



Igor Krutov
Executive Director
Director of Research
26 years in industry
18 years with Vontobel

Key Takeaways

– Asia Pacific equity markets rebounded strongly in the second quarter of 2020 as investors watched for positive news on the COVID-19 pandemic and looked through deepening economic turmoil. The Vontobel Fund - Asia Pacific Equity outperformed the MSCI AC Asia Pacific ex-Japan Index, which recorded double-digit gains for nearly all sectors.

– Stock selection in consumer staples was the most significant contributor to the Fund's relative performance on a sector basis, followed by our holdings in communication services and financials. Conversely, stock selection in information technology and consumer discretionary were the leadings detractors from our relative returns.

– More developed countries, including Taiwan and Korea, have been successful in their COVID-19 response, while less developed ones like India have struggled as they face a different set of circumstances. On the policy front, central bankers have shifted their mindset beyond orthodox policy measures, as well as their mandate to control inflation and try to maximize employment. Broadly speaking, however, developing economies do not have the same tools to respond to the crisis. As a result, the developing world will likely face the full brunt of the cost of the outbreak.

– It is important to consider the supply chain for each industry. While textile manufacturers can relocate rapidly in response to labor costs, their focus will increasingly be on efficiency and automation. For industries like consumer electronics, the supply chain is less defined by specific countries and labor costs, and takes longer and is more costly to move. We think any supply chain shifts are more likely to occur within Asia Pacific, rather than onshoring to the US.

– Equity markets are pricing in a fairly strong recovery in earnings. Across companies, it may turn out that in some instances the market was overly optimistic. The current climate requires investors to be more discerning. Through our quality growth approach, we seek to identify businesses that would be resilient in downturns and prosper over the long term. By drilling down into company fundamentals, we look for the predictable long-term earnings power that can help reward investors.

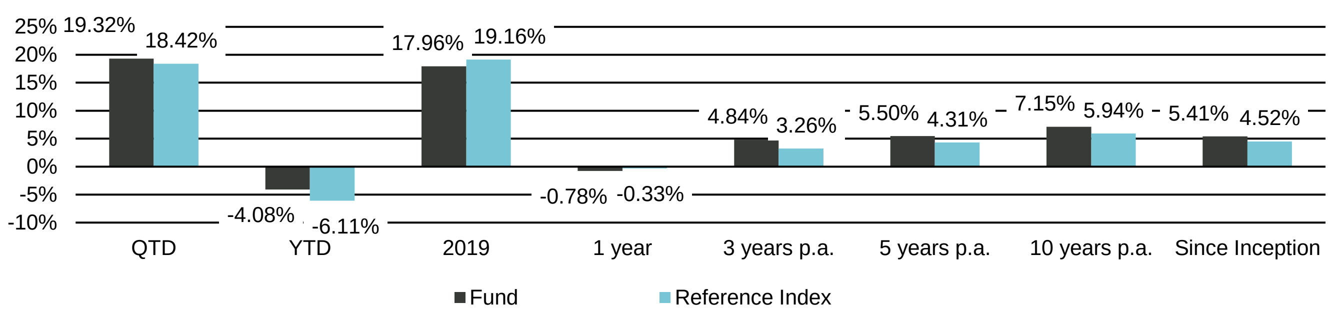
Fund characteristics

Share Class	Vontobel Fund – Asia Pacific Equity I
Reference Index	MSCI AC Far East Ex-Japan (TRN) till 30.9.2009, MSCI AC Asia Pacific ex Japan Index (TRN) thereafter
Currency	USD
Inception Date	04/04/2007
Reporting Period	04/04/2007 – 06/30/2020

Rolling 12-month net returns (in %)

PERIOD	01.07.2019-30.06.2020	01.07.2018-30.06.2019	01.07.2017-30.06.2018	01.07.2016-30.06.2017	01.07.2015-30.06.2016
Vontobel Fund – Asia Pacific Equity I	-0.78	6.40	9.17	18.22	-4.08
MSCI AC Asia Pacific ex Japan Index (TRN)	-0.33	0.81	9.57	24.96	-10.26

Performance (%) as of 2Q 2020 (I-share class)



Past performance is no guide to future performance. Performance data does not take account of commission or costs charged when units are issued or redeemed. The return of the fund may go down as well as up due to changes in rates of exchange between currencies. Vontobel Fund – Asia Pacific Equity was established as Vontobel Fund – Far East Equity and renamed on the 10.08.2018. Source & Copyright: Vontobel Asset Management.

Market Review

Asia Pacific economies showed a variation in policy response to the pandemic. China, with nearly a 40% weight in the MSCI AC Asia Pacific ex-Japan Index, accounted for almost one third of the benchmark's returns. At its annual parliamentary meeting, the Chinese government unveiled stimulus equivalent to over 6% of nominal GDP. The move followed the country's first reported contraction in quarterly GDP since 1992 as the economy shrank 6.8% in the first three months of the year. On the political front, China's tensions with the US and Europe increased after the administration took steps to tighten controls over Hong Kong with a new security law, prompting market fears of renewed trade and diplomatic conflict.

India's lockdown hit the poorest migrant workers hard and was impacted by difficulties with contact tracing and testing. COVID-19 cases were still climbing in cities like Delhi as restrictions eased, highlighting the challenge between protecting health and maintaining livelihoods. While data showed that the economy expanded by 3.1% in the three months to end March, the IMF predicted a sharp 4.5% contraction for 2020 – well below its forecast for the region. In May, the country unveiled a stimulus package close to 10% of GDP.

Other countries in the region faced sharp downturns in economic performance. South Korea cut its own growth projection to just 0.1% for 2020, which would be its worst performance since the 1998 Asian financial crisis. Indonesia also cut its growth target for the year to a range of 0.9% to 1.9% as it too faced lifting restrictions while still contending with rising infection numbers. Tourism-focused Thailand was among the worst affected in Asia as the World Bank predicted a 5% hit to its economy in 2020, with GDP expected to take over two years to regain pre-pandemic levels. At the same time, the region showed some bright spots. Malaysia's economy confounded expectations to grow by 0.7% in the first quarter thanks in part to resilient domestic consumption.

Global Markets

Performance (%) as of June 30, 2020

	SECOND QUARTER	1 YEAR
MSCI All Country World Index	19.22	2.11
MSCI All Country World ex U.S. Index	16.12	-4.80
MSCI EAFE (Europe, Australasia, Far East)	14.88	-5.13
MSCI Europe Index	15.26	-6.78
MSCI Japan Index	11.61	3.10
MSCI All Country Asia Pacific ex Japan Index	18.42	-0.33
MSCI Emerging Markets Index	18.08	-3.39
S&P 500 Index	20.54	7.51

Source: FactSet, MSCI, S&P
Expressed in US dollars.

MSCI AC Asia Pacific ex Japan Index

Sector Performance (%) as of June 30, 2020

	SECOND QUARTER	1 YEAR
Health Care	28.61	36.53
Materials	27.08	-10.31
Energy	26.81	-18.11
Communication Services	23.99	19.06
Consumer Discretionary	21.99	14.66
Information Technology	20.61	24.07
Industrials	15.47	-15.73
Consumer Staples	15.30	2.42
Financials	11.25	-17.47
Real Estate	9.84	-18.87
Utilities	6.81	-14.61

Source: FactSet, MSCI
Expressed in US dollars.

Outlook

Navigating the market rebound

– Central bank action has been a clear driver of the recovery in the Asia Pacific equity markets. Central bankers have shifted their mindset beyond orthodox policy measures, as well as their mandate to control inflation and try to maximize employment. Markets also tend to look at future earnings strength. Based on strong policy action and a fairly strong recovery following the lockdown, we believe that markets are responding appropriately.

– More developed countries within the region, including Taiwan and Korea, have been successful in their COVID-19 response. On the other hand, less developed countries like India have struggled as they face a different set of circumstances. Broadly speaking, developing economies don't have the same tools to respond to the crisis. As a result, the developing world will likely face the full brunt of the cost of the outbreak.

– It is important to look at the supply chain for each industry separately. While textile manufacturers can relocate rapidly in response to labor costs, their focus will increasingly be on efficiency and automation. For industries like consumer electronics, the supply chain is less defined by specific countries and labor costs, and takes longer and is more costly to move. We think any supply chain shifts are more likely to occur within Asia Pacific, rather than onshoring to the US.

– US restrictions on China's Huawei focus primarily on telecoms equipment, so the government may be more open to Huawei continuing to operate in handsets if it buys chips from US companies like Qualcomm. While Taiwan's TSMC has lost business supplying chips to Huawei due to the restrictions, its high-spec components mean that it can find other customers to replace that lost trade. Other players will find it hard to match TSMC's competitive advantage.

– Some potential winners from the crisis can be found in the technology space. Many companies are still going to need more investment to maintain the stability and robustness of the enterprise IT infrastructure as employees work from home. And from a consumer standpoint, we expect further investment in e-commerce and other technologies that will allow for contactless retailing.

– Equity markets are pricing in a fairly strong recovery in earnings. Across companies, it may turn out that in some instances the market was overly optimistic. However, there are opportunities to find high quality companies where the market has underappreciated the earnings power of the business.

– The current climate requires investors to be more discerning. Through our quality growth approach, we seek to identify businesses that would be resilient in downturns and prosper over the long term. By drilling down into company fundamentals, we look for the predictable long-term earnings power that can help reward investors.

Sincerely,

Asia Pacific Equity Portfolio Management Team
Brian Bandsma and Jin Zhang

“We expect further investment in e-commerce and other technologies that will allow for contactless retailing.”

Brian Bandsma talks about the mixed response to COVID-19 in Asia Pacific markets, supply chain dynamics, and opportunities for investors.

To access the full 3Q 2020 Outlook, *listen here*.[1]

Brian Bandsma
Portfolio Manager

Cheryl Gedvila
Client Portfolio Manager

[1] https://am.vontobel.com/en/insights/2020-3q-asia-pacific-equity-outlook

Performance Drivers[1]

The Vontobel Asia Pacific Equity Fund posted strong absolute returns in the second quarter, outperforming the MSCI AC Asia Pacific ex-Japan benchmark. Our Fund's outperformance was mainly due to stock selection and even the most significant detractors from our relative performance still delivered positive absolute returns.

Stock selection in consumer staples was the most significant contributor to our relative performance on a sector basis, with our holding in China's **Wuliangye Yibin** generating a total return of more than 50%. Wuliangye Yibin is a leading producer of baijiu, the most consumed alcohol in the world with a heritage dating back over 1,000 years. The company reported a 15% increase in 1Q20 sales and a 19% increase in net profits helped by pre-Chinese New Year sales. Distributor inventories also appear to be normal as China continues to emerge from the pandemic.

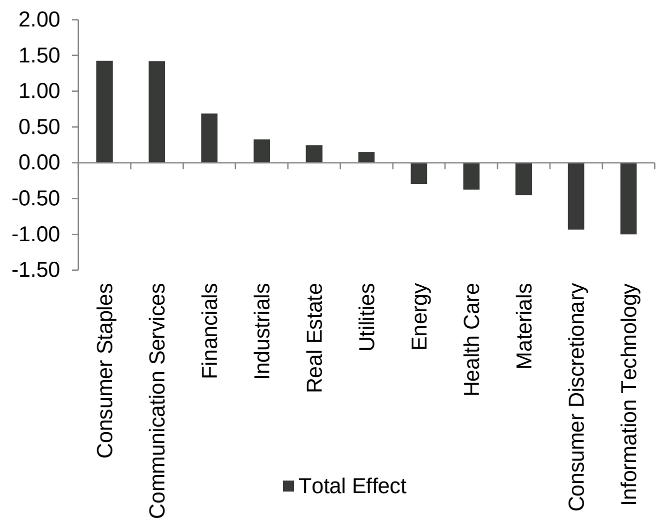
Communication services was also a leading contributor to our relative performance, led by our investments in online gaming companies **NetEase** and **NCsoft**. Online gaming has been less impacted by COVID-19 as housebound consumers have looked to online entertainment. NetEase is the number two online gaming company in China and is reinforced by popular adjacent services including e-commerce, email and online education. NetEase reported 1Q20 results well ahead of consensus expectations. Revenues grew 18% year-on-year, while margins expanded as expenses declined for sales and marketing and research and development. The second half of the year should see some new launches, including a global release of the much-awaited *Harry Potter: Magic Awakened*.

Korea's NCsoft is a leading online and mobile game developer in "massively multiplayer online role-playing games". There are high barriers to entry given the degree of sophistication of these games. The company reported strong quarterly results and its games continue to perform well and garner leading positions. NCsoft plans to launch the sequel to its popular *Blade & Soul* martial arts game later this year.

Attribution

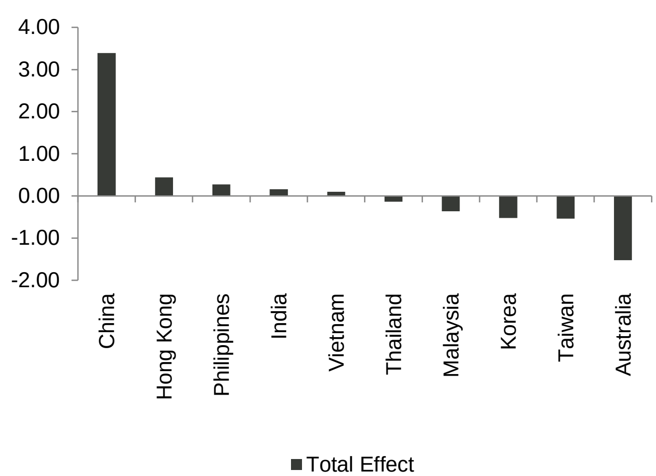
Sector

Vontobel Fund – Asia Pacific Equity vs.
MSCI All Country Asia Pacific ex Japan Index



Country

Vontobel Fund – Asia Pacific Equity vs.
MSCI All Country Asia Pacific ex Japan Index



Source: FactSet, MSCI
Attributions for the quarter ending June 30, 2020.
Based on cumulative gross performance (USD) of the Vontobel Fund – Asia Pacific Equity. The gross rates of return are presented before the deduction of investment management fees, other investment-related fees, and after the deduction of foreign withholding taxes, brokerage commissions and transaction costs. An investor's actual return will be reduced by investment advisory fees. Country attribution based on top 5 / bottom 5 countries by total effect. **Past performance is not indicative of future results.**
Total Effect: The net effect of the allocation and selection effects. A single-period sector or country's geometric total effect is calculated by multiplying the product of one plus the allocation effect (AE/100 + 1) by one plus the selection effect (SE/100 + 1) and subtracting one from the result before multiplying by 100.

[1] Please see full list of top and bottom 5 contributors at the end of this commentary.

Our stock selection in the financials sector also contributed to relative performance, helped by our lack of exposure to Chinese banks. Chinese financials account for approximately 6.5% of the benchmark and were among the weakest in the quarter. We have never owned a Chinese bank due to a lack of transparency and our belief that the interests of shareholders and government are not in alignment. Our investment in India's **HDFC Bank** also contributed to our relative returns. HDFC Bank is India's largest private retail bank with 5,000+ branches and a strong deposit franchise. It has a leading 8% market share and operates in an underbanked market where most of its competitors are less efficient state-owned enterprise banks. HDFC Bank reported 4QFY20 loan growth of 21% driven by corporate lending. India issued loan moratoriums during the pandemic that have been extended through August. HDFC Bank is conservative in its underwriting and provisioning, and increased its coverage of non-performing loans. We believe HDFC Bank is a world-class operator, and while the near-term environment will present challenges, we believe it is well-positioned to take share from its lower quality peers that will be under greater pressure.

Also within the financials sector, our investments in India's **Housing Development Finance Corporation** and Malaysia's **Public Bank** detracted, however. While their returns were positive (+7.8% and +4.6%, respectively) both lagged the sector. Housing Development Finance Corp. is India's leading mortgage finance company. Its loan growth slowed to 11% in its 4QFY20. Nonetheless, we believe Housing Development Finance Corp.'s high quality loan book and conservative provisioning put it in an advantageous position relative to its peers. Further, in India, mortgages as a percentage of nominal GDP are among the lowest in the world at roughly 10%. A young population, urbanization and a structural shift to nuclear families should drive household creation well into the future. Public Bank is a leading retail bank in Malaysia. The company reported 1Q20 results in line with consensus expectations though loan growth slowed to 2.9% and net interest margin came under pressure. As in India, a loan moratorium is in place. We believe Public Bank has a strong deposit franchise and is well-capitalized.

Information technology negatively impacted our relative performance on a sector basis due to stock selection. Our holding **SK hynix** delivered a positive total return but lagged the sector. SK hynix is a pure play leader in the memory semiconductor space and is the world's second largest DRAM manufacturer. The industry has become more disciplined with consolidation and also benefits from structural growth drivers, with demand driven by data generation and migration to the cloud. SK hynix reported 1Q20 results that handily beat consensus expectations, although management was conservative in its guidance for the second half of the year. While SK hynix's performance was muted, we also lacked exposure to some of semiconductor names, such as **MediaTek** and **Semiconductor Manufacturing International**, which were robust performers as the market perceived they could benefit from a shift in Huawei's suppliers. Our investment in India's **Tata Consultancy Services** delivered a total return of +14.8%, which although strong lagged the sector and detracted from relative performance. Tata Consultancy Services is a global leader in IT services, digital and business solutions. In our view, its tailored solutions create customer stickiness, while its ability to integrate digital deals involving multiple technologies is a competitive advantage.

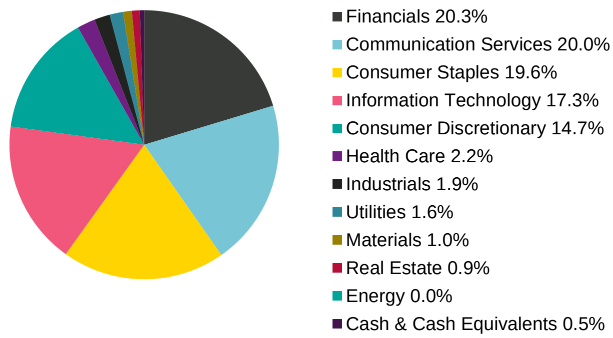
Portfolio Changes[1]

In India, we bought **Asian Paints Ltd**. in the materials sector. This paint and coatings producer is a strong franchise that has carved out significant competitive advantages that we believe are likely to endure for many years. In our view, the company will not only benefit from macro tailwinds, but also from its wide moat fueled by the combination of its sticky dealer network, 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.

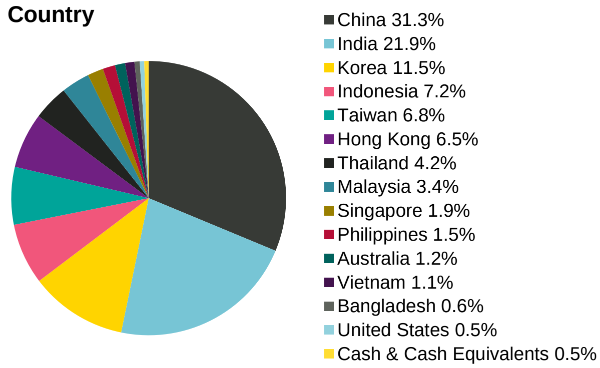
We exited our position in Chinese industrials company **ZTO Express** to reallocate capital to better opportunities.

Allocation

Sector



Country



Sector and country allocations are as of June 30, 2020 and based the Vontobel Fund – Asia Pacific Equity.

[1] Purchases provided are the new purchases with positions greater than 50 basis points in the Vontobel Fund – Asia Pacific Equity for the period. Sells provided are all names that were fully liquidated in the Vontobel Fund – Asia Pacific Equity for the period. The holdings may not represent all of the securities purchased, sold, or recommended for advisory clients.

Portfolio Data

Top 10 Holdings[1]

	SECTOR	COUNTRY	% OF PORTFOLIO
Tencent Holdings Ltd.	Communication Services	China	7.9
Alibaba Group Holding Ltd.	Consumer Discretionary	China	6.9
NetEase, Inc.	Communication Services	China	4.9
HDFC Bank Limited	Financials	India	4.7
Taiwan Semiconductor Manufacturing Co., Ltd.	Information Technology	Taiwan	4.5
Wuliangye Yibin Co., Ltd.	Consumer Staples	China	4.5
SK hynix Inc.	Information Technology	Korea	4.3
Tata Consultancy Services Limited	Information Technology	India	4.0
HCL Technologies Limited	Information Technology	India	3.4
ITC Limited	Consumer Staples	India	2.7
Total			**47.8**

Characteristics

	VONTOBEL ASIA PACIFIC[1]	MSCI AC ASIA PACIFIC EX JAPAN
Market Capitalization (US$ bn), weighted average	131.9	130.8
P/E - Forecast 12-month, weighted harmonic average	18.7	14.9
Dividend Yield (%)	1.9	2.7
5 Yr Historical EPS Growth (%)	14.9	12.9
Return on Equity, weighted average (%)	21.6	14.9

Risk Statistics (5 Year)

	VONTOBEL ASIA PACIFIC[2]	MSCI AC ASIA PACIFIC EX
Annualized Alpha	1.8	–
Beta	0.8	1.0
Sharpe Ratio	0.3	0.2
Annualized Standard Deviation	15.0	16.9

Top 5 Contributors[1] by Security (3 Months)

	SECTOR	AVERAGE WEIGHT (%)	CONTRIBUTION TO RETURN (%)
Tencent Holdings Ltd.	Communication Services	7.43	2.14
Wuliangye Yibin Co., Ltd.	Consumer Staples	3.93	1.75
NetEase, Inc.	Communication Services	4.75	1.51
HDFC Bank Limited	Financials	4.34	0.98
HCL Technologies Limited	Information Technology	3.35	0.85

Bottom 5 Contributors[1] by Security (3 Months)

	SECTOR	AVERAGE WEIGHT (%)	CONTRIBUTION TO RETURN (%)
Link Real Estate Investment Trust	Real Estate	1.05	-0.02
British American Tobacco Bangladesh Company	Consumer Staples	0.65	0.00
British American Tobacco Malaysia Bhd.	Consumer Staples	0.28	0.02
Heineken Malaysia Bhd.	Consumer Staples	0.75	0.03
Asian Paints Ltd.	Materials	0.26	0.03

Top 5 Contributors[1] by Security (1 Year)

	SECTOR	AVERAGE WEIGHT (%)	CONTRIBUTION TO RETURN (%)
NetEase, Inc.	Communication Services	4.95	2.97
Tencent Holdings Ltd.	Communication Services	5.92	2.77
Alibaba Group Holding Ltd.	Consumer Discretionary	6.10	1.67
Wuliangye Yibin Co., Ltd.	Consumer Staples	3.14	1.46
Taiwan Semiconductor Manufacturing Co., Ltd.	Information Technology	3.92	1.33

Bottom 5 Contributors[1] by Security (1 Year)

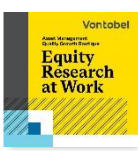
	SECTOR	AVERAGE WEIGHT (%)	CONTRIBUTION TO RETURN (%)
HDFC Bank Limited	Financials	4.61	-1.47
ITC Limited	Consumer Staples	2.92	-1.18
Housing Development Finance Corporation Limited	Financials	3.30	-1.03
PT Gudang Garam Tbk	Consumer Staples	2.10	-0.92
PT Bank Rakyat Indonesia (Persero) Tbk	Financials	1.87	-0.91

Portfolio data as of June 30, 2020
Source: FactSet. All returns are expressed in US dollars.
[1] Based on the Vontobel Fund – Asia Pacific Equity. The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. For more information on the calculation methodology or a complete list of holdings which contributed to overall performance during the period, please contact a Vontobel representative at ClientServices@vontobel.com.

[2] Based on gross performance of the Vontobel Fund – Asia Pacific Equity. The fund's gross rates of return are presented before the deduction of investment management fees, other investment-related fees, and after the deduction of foreign withholding taxes, brokerage commissions and transaction costs. An investor's actual return will be reduced by investment advisory fees.
Past performance is not indicative of future results.

Reference Materials

Blog[1]
Race, Role Models and the Future



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About Us

Vontobel Asset Management's Quality Growth Boutique is the New York-based global investment management business dedicated exclusively to managing global and regional long-only equity portfolios. We seek to invest in high-quality growth companies with the goal of outperforming the benchmark, with less risk, over a full market cycle. Our goal isn't unique – what sets us apart is our execution. One team of experts consistently applies the same approach to all our global equity products.

Vontobel Asset Management is a global multi-boutique asset manager with Swiss roots and investment teams in Zurich, New York and London. Vontobel Asset Management is one of the three business units of Vontobel Holdings AG.

Follow us on:

[1] https://am.vontobel.com/en/insights/race-role-models-and-the-future

Opportunities[1]

- “Quality growth” investment style aimed at the preservation of capital.
- Invests primarily in securities of companies that have relatively high long-term earnings growth and above-average profitability.
- Broad diversification across numerous securities.
- Possible extra returns through single security analysis and active management.
- Gains on invested capital possible.
- Use of derivatives for hedging purposes may increase subfund’s performance and enhance returns.
- Price increases of investments based on market, sector and company developments are possible.
- Investment universe is diversified across global equity markets.

Risks

- Investment style may lead to more heavily concentrated positions in individual companies or sectors.
- Limited participation in the potential of single securities.
- Success of single security analysis and active management cannot be guaranteed.
- It cannot be guaranteed that the investor will recover the capital invested.
- Derivatives entail risks relating to liquidity, leverage and credit fluctuations, illiquidity and volatility.
- Price fluctuations of investments due to market, industry and issuer linked changes are possible.
- Investment universe may involve investments in countries where the local stock exchanges may not yet qualify as recognized stock exchanges.

[1] The listed opportunities and risks concern the current investment strategy of the fund and not necessarily the current Portfolio. Subject to change, without notice, only the current prospectus or comparable document of the fund is legally binding.

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