Vontobel Fund – Transition Resources

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

Investors in France should note that, relative to the expectations of the Autorité des Marchés Financiers, this fund presents disproportionate communication on the consideration of non-financial criteria in its investment policy.

Market developments

July was a challenging month for global equities, with the MSCI World closing broadly flat, hiding significant divergences between sectors. While information technology, utilities and industrials suffered, the beneficiaries were energy, given the failure to reopen the Strait of Hormuz and involvement of the Houthi to also hinder traffic into the Red Sea, and financials, as interest rates could stay high for longer. The significant rotation investors had triggered in late June by exiting artificial-intelligence (AI)-related and semiconductor stocks accelerated through July, also dragging down stocks of providers of related equipment and power infrastructure. Broader risk-off sentiment was fueled by skepticism about the returns on investment in AI, particularly as latest projects were no longer financed by free cash flow but debt issuance. Commodities whipsawed, as renewed escalation of the Middle East conflict between the US and Iran reversed much of June's de-escalation trade. Fresh military strikes and threats to block the Strait of Hormuz revived supply fears. As a result, oil prices snapped sharply higher. By contrast, precious metals dropped, caught in a tug-of-war between their traditional role of serving investors as a hedge against inflation/crisis and investors' mounting fears that persistent US inflation could force the Federal Reserve to hike interest rates – a scenario that would push real rates higher and weigh on non-yielding assets. Aluminum and iron ore also stayed under pressure, still digesting the unwind of the earlier crisis premium, alongside softer Chinese industrial demand, while copper was essentially range-bound. Tight Chinese concentrate and scrap supply was offset by a cautious demand backdrop, as manufacturing activity softened and policymakers held off on fresh stimulus. Lithium suffered the most, falling sharply as renewed supply growth and a broader sentiment rotation away from battery materials outweighed any residual demand support.

Portfolio review

By end-July, the portfolio counted 53 positions, after two divestments and two additions. We exited Rockpoint Gas Storage, as in our view, the stock's valuation was full, while its price largely reflected our investment rationale for growth and left only limited upside. We also sold our residual position in Alcoa, as we turned more cautious on the aluminum supply outlook over the next few years, with the commissioning of incremental capacity in Indonesia and, at a later stage, in India as well, which is likely to weigh on the market. With the proceeds we initiated a position in First Quantum Minerals, assuming that the reopening of Cobre Panama is drawing closer. We see this as a significant re-rating catalyst, given the scale of the asset relative to the company's current valuation. We also added NexGen Energy, which is building the world's largest and highest-grade uranium mine in Canada. After the recent sentiment-driven selloff in uranium stocks, we deemed their valuation compelling relative to the quality and scale of the underlying asset, prompting us to start building exposure.

Performance analysis

In July, the fund performed roughly on a par with the global equity market but lagged far behind the benchmark. Our sector allocation detracted, as the exposure to industrials suffered from the broader rotation out of AI-related trades. Our security selection detracted as well, especially within energy and materials. Within industrials, most of our holdings – from gas turbine manufacturers to battery producers to recycling companies – were caught up in the reversal of the broader AI trade, regardless of the underlying fundamentals. Within energy, our structural underweight in large integrated as well as exploration and production (E&P) names – an inherent feature of a transition-focused strategy – worked against us, as these were precisely the segments that benefited most from the renewed escalation in the Middle East. Our energy services exposure, which we expected to provide some cushioning, added to the pain instead. Names like Technip Energies and Saipem continued to suffer, as regional instability drove up security and logistical costs. Within materials, transition-related names came under disproportionate pressure relative to their underlying commodities. The selloffs in lithium, uranium, copper, and critical minerals stocks were far more severe than their physical price declines, while diversified miners and steel producers, to which we carry less exposure, proved far more resilient. A further drag was the fund's lack of exposure to packaging stocks. This segment – which we structurally cannot access, as packaging sits downstream and does not fit the fund's transition materials pillar – performed strongly on improving pricing trends and a finally rebalanced market after recent supply cuts.

Outlook

We remain constructive on natural resources and continue to expect outperformance over time. July's renewed Middle East flare-up confirmed that the ceasefire remains fragile, reinforcing rather than undermining the case for energy independence and, in turn, demand for transition enabling materials. The sharp underperformance of lithium, uranium, copper, and critical minerals stocks versus their underlying commodities looks like a sentiment-driven overreaction tied to the AI trade unwind, rather than a fundamental shift. We see this as an attractive entry point, with still intact structural drivers, such as electrification, data center build-out, supply constraints, and recycling. As to low-carbon energy, we see the weakness in energy services caused by rising project costs for safety and security as a near-term headwind, not a change to the capital expenditure (capex) cycle thesis. Persistent supply constraints keep prices for electrification commodities elevated, while recycling and circular economy names have also emerged as notable beneficiaries to reduce effects from commodity price volatility and geopolitical trade disruptions. Supply chain resilience and material efficiency have moved up on the strategic agenda for corporates and governments alike. We see attractive investment opportunities across a broad set of suppliers of these materials, enabling technologies, and essential services.

Fund characteristics

Fund name	Vontobel Fund – Transition Resources
ISIN	LU0384406327
Share class	I EUR
Benchmark	MSCI World Index to 31.8.2021, MSCI All Country World Index to 5.5.2025, S&P Global Natural Resources Net Total Return Index thereafter
Inception date	17.11.2008

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	-2.0%	6.8%
YTD	12.4%	20.0%
1 year	35.7%	35.5%
3 yrs p.a.	13.7%	19.8%
5 yrs p.a.	6.0%	13.3%
10 yrs p.a.	5.8%	13.1%
ITD p.a.	7.6%	13.3%

Time period	Fund	Benchmark
2025	31.1%	10.8%
2024	8.3%	25.3%
2023	-8.7%	18.1%
2022	-14.2%	-13.0%
2021	10.1%	29.8%
2020	37.4%	6.3%
2019	10.4%	30.0%
2018	-24.9%	-4.1%
2017	3.2%	7.5%
2016	11.3%	10.7%

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, e.g. 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.
Since fund inception until 5.5.2025, the fund had different characteristics and performance was achieved under circumstances that no longer apply.

Investment risks

— Investments in Chinese A-Shares are subject to changes in political, economic and social conditions in China as well as changes in the policies of the PRC government, laws and regulations.
— The portfolio has lower risk diversification as the focus lies on companies within a specific investment theme.
— A company's stock price may be adversely affected by changes in the company, its industry or economic environment and prices can change quickly. Equities typically involve higher risks than bonds and money market instruments.
— Using derivatives generally creates leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
— The sub-fund's investments may be subject to sustainability risks. The sustainability risks that the sub-fund may be subject to are likely to have an immaterial impact on the value of the sub-fund's investments in the medium to long term due to the mitigating nature of the sub-fund's ESG approach. The sub-fund's performance may be positively or negatively affected by its sustainability strategy. The ability to meet social or environmental objectives might be affected by incomplete or inaccurate data from third-party providers. Information on how environmental and social objectives are achieved and how sustainability risks are managed in this sub-fund may be obtained from vontobel.com/sfdr.

criteria and factors are considered as part of the overall investment process.

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