Monthly commentary / 30.9.2024

Vontobel Fund – Emerging Markets Equity

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.

Summary
- The performance of the fund was positive in September 2024 but underperformed the MSCI Emerging Markets ND.
- The Financials and Communication Services sectors were positive contributors to relative performance over the month. The Consumer Discretionary and Consumer Staples sectors were the largest detractors from relative performance.
- On a country basis, Hong Kong and Taiwan contributed to relative performance, while the China and Brazil detracted from relative performance.
- Relative to the benchmark, the Fund's largest sector overweights for the month were Consumer Staples and Health Care while the largest sector underweights were Financials and Materials.
- The fund's largest country overweights relative to the benchmark were the Hong Kong and Brazil while largest underweights were the China and Saudi Arabia at the end of month.

Market developments

China monetary stimulus and interest rate cuts in the US and Europe were the main drivers of global equity performance in September. After a slow start to September, US equities performed in line with the global benchmark thanks in large part to the Federal Reserve's first interest rate cut since 2020. Solid GDP data increased expectations of an economic soft landing, with US equities finishing the month at record levels. Across the Atlantic, European equities were weak as poor economic indicators, including deteriorating manufacturing and services PMIs, weighed on investor confidence. However, performance improved towards the end of the month partly due to interest rates cuts in the US and Europe, combined with expectations that China stimulus would have a positive impact on exporters.

Emerging markets performance was driven by China. After indications of measures to strengthen consumer spending and turn around weakening GDP, Chinese authorities unveiled wide-ranging monetary stimulus that included a cut in the reserve requirement ratio for banks, lower borrowing costs for existing homeowners and new buyers, and measures to boost the stock market. The package fuelled the largest weekly gain for Chinese shares since 2008. It was followed by another spike in share prices at the end of the month as investors bet on fiscal stimulus and the country entered its Golden Week national holiday.

Portfolio review

Purchases

Public Bank Bhd

Public Bank has been de-rating over the last few years over concerns around growth, tech capabilities, and uncertainty regarding the stake of the late founder. These concerns are fading, and we expect the stock to re-rate, driven also by steady net income growth and improved dividend payout. The domestic macro-economic conditions are supportive, with credit growth improving, especially in the consumer segment.

Trip.com Group Ltd.

Trip.com (TCOM) is the largest OTA in China and perceived to be the most premium domestic platform (Ctrip). TCOM also owns 45% of Qunar and 20% of Tongcheng Travel. Industry consolidation has led to more benign competition. Ctrip remains dominant in accommodations (~50% of GTV, >70% if including associates Qunar and Tongcheng), transportation (~ 90% of GTV with Tongcheng), and outbound travel (~30% of GTV). Since recovering from the pandemic, Trip.com has also been gaining meaningful share in Asia after years of investment in the product and customer service. Through continual online penetration of domestic travel services, structural growth of outbound travel, and market share gains in overseas markets, Trip.com should generate sustainably generate low-teens EPS growth.

NetEase Inc.

We have owned the local line for a while and have held the ADR. Netease has run the two most successful and longest running video games in the Chinese market, which 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.
Sales
Americana Restaurants International PLC.
Due to the ongoing conflict in the middle east, visibility on near to medium term remains very low.

Performance analysis
TOP3 Contributors:
Tencent Holdings Ltd.
Tencent recovered after reporting solid growth in 2Q with revenue growth of 8%, OP +27%, and eps +55%. Eps beat by around 20% due to higher share of associates. Overall games growth is picking up both on domestic and international gaming, and advertising revenue strength driven by video accounts.
AIA Group Ltd.
AIA outperformed in the month of September, after the Chinese stimulus announcement. AIA, the largest life insurance company in Asia, is prudently managed with solvency and capitalization significantly above regulated requirements with profit recognition back-end loaded. Limited competition, light regulation and direct distribution keep profitability high for AIA. Given the low penetration of insurance and lack of competition from government social safety nets, the protection gap is large in Asia and growth rates are just starting to accelerate. We believe the growth opportunity is significant and has a long time before reaching market saturation. Additionally, AIA's overly provisioned balance sheet and the back-end loading of profit reporting would allow the company to grow earnings even with limited ANP growth.
PDD Holdings Inc.
PDD has rallied as a result of the positive Chinese stimulus policy.
TOP3 Detractors:
Samsung Electronics Co Ltd.
Sentiment on the memory industry turned negative from July onwards due to concerns on memory prices turning downward amid a cycle peak-out and HBM oversupply concerns in 2025. While legacy DDR4 and NAND prices should fall, the pricing outlook for server DRAM and DDR5 is still strong and there is low inventory at DDR5. DRAM makers will focus on tech migration to leading edge mix instead of adding new capacity. For now, HBM oversupply will be unlikely due to still lower yield: Supply-wise, nominal capacity seems sufficient, but yield and utilization issues will persist, limiting output growth due to difficulty in making 12-high vs. 8-high HBM as well as larger die sizes.
NU Holdings Ltd.
After the strong run in the summer, driven also by the index inclusion, Nubank has taken a breather in September. We continue to believe that the growth potential, especially in Mexico, is not yet fully priced in.
Titagarh Rail System Ltd.
Titagarh Rail System Ltd. (TRS) was weaker mainly due to some weakening sentiment around Indian infrastructure. While there were some hiccups relating to labour pre-election we think those have been sorted and the company is on track to meet its targets on expansion in wagons and passenger cars.

Outlook
US interest rate policy has begun to normalize. In our view, equity investors should not be overly optimistic about aggressive rate cuts as those would likely be driven by weaker underlying economic conditions, specifically the unemployment rate.
While the US Presidential election has the potential to be a volatile event, markets are influenced by many variables beyond the control of any single politician or political party. Over the long term, however, policy can have a more substantial impact.
The longer-term theme in China is automation in the face of a shrinking workforce and the need to reduce manufacturing costs. We believe this shift will be a structural driver and we expect market share gains for local leading businesses. We continue to avoid the property sector where excess inventory will take a long time to clear, and banks which have rising non-performing loan risks and weaker net interest margins as interest rates reduce.
The evolving geopolitical landscape presents challenges for active investors. The upcoming US election could influence the trajectory of the Israel-Hamas conflict and the Russia-Ukraine war over the next 12 months. Managing geopolitical risk is similar to managing economic, business, or other fundamental risks. We seek to invest in companies with predictable earnings growth, focusing on their business operations and the attributes that make them quality investments, while maintaining reasonably conservative valuation assumptions.

Fund characteristics

Fund name	Vontobel Fund – Emerging Markets Equity
ISIN	LU0278093082
Share class	I USD
Reference index	MSCI Emerging Markets TR net
Inception date	30.3.2007

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	6.4%	6.7%
YTD	7.3%	16.9%
1 year	14.6%	26.1%
3 yrs p.a.	-5.5%	0.4%
5 yrs p.a.	-0.3%	5.7%
10 yrs p.a.	1.2%	4.0%
ITD p.a.	3.9%	3.8%

Time period	Fund	Ref. index
2023	2.5%	9.8%
2022	-23.3%	-20.1%
2021	-6.0%	-2.5%
2020	16.0%	18.3%
2019	18.3%	18.4%
2018	-14.2%	-14.6%
2017	34.2%	37.3%
2016	0.7%	11.2%
2015	-8.5%	-14.9%
2014	5.9%	-2.2%

Past performance is not a reliable indicator of current or future performance. Performance data does not consider 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.

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.
- Investments in emerging markets entail increased liquidity and operational risks as these markets tend to be underdeveloped and more exposed to political, legal, tax and foreign exchange control risks.
- 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.
- 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-funds' investments in the medium to long term due to the mitigating nature of the sub-fund's ESG approach. The sub-funds' 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.

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