Quarterly commentary / 30.9.2024

Vontobel Fund II – Fixed Maturity Emerging Markets Bond 2026

Marketing document for institutional investors in: AT, CH, DE, ES, FR, GB, IT, LI, LU, SG (Professional Investors only).

Market developments

The third quarter of 2024 was generally positive for risky assets, particularly for emerging-market bonds. Dominant on the agenda of investors was the anticipated cut of its key interest rate by the US central bank Fed, which came in at 50 basis points (bps) in September, with further cuts likely in the coming months. This caused bond markets to rise for almost the entire quarter. Slowing global inflation and a weaker job market in the US created a perfect moment for the Fed to finally start its monetary policy easing cycle. Yields of 10-year US government bonds fell from 4.4% to 3.8%, while the US dollar (USD) weakened by 4.8%, as measured by the DXY index.
Early in August, a faster than expected slowdown in US labor data and a surprisingly hawkish hike of its key interest rate by the Bank of Japan triggered a brief and small market bump. The appreciation of the Japanese yen caused the sudden unwinding of carry trades funded in this currency. However, the markets quickly absorbed this and ignored any negativity.
On the political side, markets heavily reversed the so-called Trump trade (which among others included a steeper yield curve, stronger equities in certain sectors such as energy and crypto) once the Democrats had replaced Joe Biden by Kamala Harris as their presidential candidate. Harris' chances saved the party's campaign, but later the picture balanced somewhat and currently the odds for Harris and Trump look virtually tied (50/50), just one month before the election on November 5.
At the same time, increasing signs of weakness in both the US and Chinese economies coupled with persistent plans of the Organization of the Petroleum Exporting Countries and their allies (OPEC+) to bring some barrels back to the market by the end of 2024 led the oil prices lower. Over the quarter, the price for Brent fell from USD 83 to USD 72 per barrel (bbl), the largest decline since the third quarter of 2022. However, at the beginning of October, the escalation of the conflict between Israel and Lebanon's Hezbollah and Iran's first retaliation against Israel in months triggered a massive recovery in crude oil prices (to USD 78/bbl at the time of writing).
During most of the quarter, emerging-market bond funds still saw outflows (USD -1.2bn for those in hard currencies and USD -4bn for those in local currencies), although the last two weeks (i.e., since the Fed rate cut) brought quite a positive turn. While emerging-market bond spreads tightened from 395 to 360 bps for sovereigns, as measured by the EMBI GD, they remained largely unchanged at 265 bps for corporates, as measured by the CEMBI BD. Spread tightening for sovereigns was to a certain extent due to the inclusion of Ukrainian bonds in the indices after restructuring.
The above-mentioned Israel-Iran/Hezbollah conflict has been dominating the headlines for months now, particularly ahead of the October 7 anniversary of lasts year's attack on Israel by the Hamas. In the other ongoing conflict between Russia and Ukraine, an arguably unusual occurrence was Ukraine's surprise incursion in the Kursk region of Russia. While grabbing headlines and perhaps of relevance for any future peace talks, the move did not grow into something bigger in the overall context of the war. Another relevant development was Russia's changing of nuclear doctrine as a reaction to the mooted (but so far still unconfirmed) expansion of formal support by the US and the UK of Ukraine's long-range missile attacks within Russia. At large, however, this latter conflict still lingers in anticipation of the US elections outcome.
Among the most notable single-country events in emerging markets were the Venezuelan elections in July (Maduro won and ignored any protests of the outcome, while the US largely ignored any shenanigans by carrying on with oil licenses in Venezuela and only making some symbolic political statements); Ukraine's finalization of its bond restructuring once the 2-year moratorium on payments from the previous one had expired; Mexico rushing a market-unfriendly judicial overhaul in the last month of outgoing president AMLO (his successor Claudia Sheinbaum took over on October 1); Brazil replacing its Central Bank governor and yet being upgraded to Ba1 by Moody's at the end of September. In fact, last quarter saw a strong wave of sovereign (and, hence, corporate) upgrades, with Oman lifted to its first investment-grade rating (last downgrade in 2019), Turkey brought back to the BB category (BB- from Fitch), Croatia getting its first A-level rating (A- from both S&P and Fitch), and Costa Rica getting its third BB/BB- level rating, to name just a few.

Portfolio review

As of end-September, the fund size was USD 507m, the highest in more than a year, even after a USD 15m dividend distribution at end-July. Supported by positive performance and favorable USD/EUR and USD/CHF exchange rate movements, assets under management (AUM) were only marginally affected by outflows, which amounted to USD 4.2m in the third quarter, the lowest quarterly number since the fund exists.
The flows notably slowed down as the fund is approaching the

par value of 100 for the first time since its inception in November 2021. We consider this a remarkable recovery from a level below 80 at the end of 2022. With a yield to maturity (YTM) of currently 6.5% in USD terms after hedging and more than two years remaining until maturity, we are optimistic that the net asset value (NAV) will continue to rise. Based on the current hedging costs in CHF and EUR, the prospects also look positive for investors in these currencies.
We continued to marginally adjust the portfolio during the quarter. While not changing it materially, we are always seeking the most appropriate opportunities across the credit spectrum (barring below B-rated investments). A notable trend of this past quarter was our deliberate and marked reduction of the China weight in the portfolio (from 9.9% to less than 8.0% of AUM). We sold IG-rated names that had tightened to unreasonably low levels in the overall portfolio context, while keeping the property names we still held. Hence, the fund benefitted from the recent announcement of economic stimuli by China's government. We also reduced Chile's weight by 3.6 percentage points to 5.0%, not so much due to concerns on the country, but rather for valuation reasons. We also sold our remaining small Israel exposure. Instead, we diversified into Korea, India, and some other countries, whose value we deemed appropriate. As a result, our biggest country weights changed most drastically over the past one and a half years. The current order of size is Mexico (9.1%), China (8.0%), Colombia (7.9%), Supranationals (6.1%). As of end-June, it was China (9.9%), Mexico (9.1%) Chile (8.6%), Colombia (7.8%). As we are approaching the end of the fund's life, we increasingly focus on further reducing any sort of risk.
That said, we shifted some parts of BB, CCC, and BBB positions into B-rated names, as quite a few names de-risked during 2024, with a lot more affordable primary markets and upgrades prevailing over downgrades.
We continue to closely monitor our legacy positions. Only 0.7% of AUM are bonds that trade below 65 cents on the dollar (compared to 1.4% 3 months ago and 2.0% 6 months ago). Another 1% of AUM are bonds that trade between 69 and 82 cents on the dollar (three lines including the two Chinese property names Vanke and Longfor, which we kept or added in the past 2 years). Fundamentally, most of these names have seen positive developments, justifying the move. Currently, we have no plans to imminently exit any of them. We rather intend to sell them gradually and in a controllable manner.

Performance analysis

The fund returned 3.6% in the third quarter. The NAV of the I share class in USD recovered from 96.4 to 99.9. While not benchmarked against any index, we believe it is important to consider performance in a context: CEMBI BD – the benchmark for emerging-market corporate bonds with short duration – gained 4.4% last quarter, while most funds with a focus on emerging-market corporate bonds returned between 4.0% and 5.0% in absolute terms.
While most countries added to performance, only one name (legacy position Credivalores from Colombia) detracted visibly (-15 bps). Country-wise, the largest contributors were Mexico (46 bps), Supranationals (30 bps), and China (29 bps). Issuer-wise, the largest contributors were Pemex (29 bps), Trans Oil (17 bps), and VEON (16 bps). This quarter again, some issuers made attractive tender offers, which helped us accelerate our expected returns from the respective positions and move to the next attractive ideas. One example was CPI Property, a developer from the Czech Republic, that had previously been downgraded to BB+ from investment grade but nevertheless successfully sold assets in the current market and had the opportunity to refinance some debt.
Year to date, the fund gained 8.9% (CEMBI 8.6%), with China and Mexico responsible for some 75 bps each, while the other countries contributed positively with only a few exceptions.

Outlook

We remain optimistic on the outlook of emerging-market bond issuers for the next six to twelve months. In our view, the escalation of the conflict in the Middle East and the US elections are two major risk factors that will influence the markets in the coming weeks. But we do not expect these risks to have a major impact on the fund.
First, a bulk of the bonds in our portfolio mature within the next two and a half years and as most of them have investment-grade quality, there is not too much of a timeframe for something to go so wrong that those issuers would be affected in their short-term credit quality.
Second, the US Fed is easing its monetary policy arguably faster than expected. This directly leads to lower short-term rates, which is positive for short-duration emerging-market bonds.
Third, China's announced major stimulus program across financial markets and the banking and property sectors, while short of a 2008-style bazooka, is still significant enough in our view to underpin short- and medium-term macro expectations. The issuers we hold, both in China and in commodity-exporting emerging markets, should benefit from that.
Finally, the fact that election-related uncertainty should be gone by the end of next quarter (to be conservative) coupled with robust returns from emerging-market bonds, broadly speaking, will likely mean the long-hoped return of flows into the asset class.
We will be cautiously watching the above-mentioned Middle Eastern conflict and its potential risks, such as a big shock in the oil markets or other geopolitical ruptures. We do not expect either of these in the next few months. The oil market is quite firmly managed by the OPEC+ and to a much lesser extent by the US. A USD 60-80/bbl range is a comfortable balance for both producers and consumers, and both sides are aware of the disruptions that moving away from such range could cause. The military confrontations both in the Middle East and Eastern Europe are obviously much less predictable by nature and will strongly depend on how the White House and Capitol Hill balance of power works come January 2025. But for the time being, both hotspots seem to develop within regional boundaries and are rather segregated from financial markets.

Fund characteristics

Fund name	Vontobel Fund II – Fixed Maturity Emerging Markets Bond 2026
ISIN	LU2365110571
Share class	I USD
Reference index	–
Inception date	9.11.2021

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	1.2%	–
YTD	8.9%	–
1 year	13.6%	–
3 yrs p.a.	–	–
5 yrs p.a.	–	–
10 yrs p.a.	–	–
ITD p.a.	0.0%	–

Time period	Fund	Ref. index
2023	7.9%	–
2022	-14.1%	–
2021	–	–
2020	–	–
2019	–	–
2018	–	–
2017	–	–
2016	–	–
2015	–	–
2014	–	–

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

- 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.
- 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.
- CoCo-Bonds may entail significant risks such as coupon cancellation risk, capital structure inversion risk, call extension risk.
- Distressed securities have a high credit and liquidity risk as well as a potential restructuring and litigation risk. In the worst case, a total loss may result.
- Securities with a lower credit quality means a higher risk that an issuer may fail to meet its obligations. The investment value may fall if an issuer's credit rating is downgraded.
- Asset-backed and mortgage-backed securities and their underlying receivables are often non-transparent. The sub-fund may also be subject to a higher credit and/or prepayment risk.
- The sub-fund's investments may be subject to sustainability risks. Information on how sustainability risks are managed in this sub-fund may be obtained from vontobel.com/sfdr.

Important legal information

This marketing document was produced by one or more companies of the Vontobel Group (collectively "Vontobel") for institutional clients, for distribution in AT, CH, DE, ES, FR, GB, IT, LI, LU, 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 ("K(I)ID"), 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, or as "qualified investors" as defined by Switzerland's Collective Investment Schemes Act ("CISA").

For products with the ESG SFDR Category Art. 6, the investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

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, 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.

Interested parties may obtain the above-mentioned documents free of charge from 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 facilities agent in **Austria**: Erste Bank der oesterreichischen Sparkassen AG, Am Belvedere 1, A-1100 Vienna, from the authorized distribution agencies and from the offices of the fund at 11-13 Boulevard de la Foire, L-1528 **Luxembourg**, the European facilities agent for **Germany**: PwC Société coopérative - GFD, 2, Rue Gerhard Mercator B.P. 1443, L-1014 Luxembourg, Email: lu_pwc.gfd.facsvs@pwc.com, gfdplatform.pwc.lu/facilities-agent/, the European facilities agent for **France**: PwC Société coopérative - GFD, 2, Rue Gerhard Mercator B.P. 1443, L-1014 Luxembourg, Email: lu_pwc.gfd.facsvs@pwc.com, gfdplatform.pwc.lu/facilities-agent/. Refer for more information on the fund to the latest prospectus, annual and semi-annual reports as well as the key (investor) information documents ("K(I)ID"). These documents may also be downloaded from our website at vontobel.com/am. A summary of investor rights is available in English under: vontobel.com/vamsa-investor-information. 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 KID can be obtained in Spanish from Vontobel Asset Management S.A., Sucursal en España, Paseo de la Castellana, 91, Planta 5, 28046 Madrid. The KID is available in French. The fund is authorized to the commercialization in **France**. Refer for more information on the funds to the KID.The fund authorised for distribution in the **United Kingdom** and entered into the UK's temporary marketing permissions regime can be viewed in the FCA register under the Scheme Reference Number 466625. The fund is authorised as a UCITS scheme (or is a sub fund of a UCITS scheme) in a European Economic Area (EEA) country, and the scheme is expected to remain authorised as a UCITS while it is in the temporary marketing permissions regime. This information was approved by Vontobel Asset Management S.A., London Branch, which has its registered office at 3rd Floor, 70 Conduit Street, London W1S 2GF 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 S.A., London Branch, on request. The KIID can be obtained in English from Vontobel Asset Management S.A., London Branch, 3rd Floor, 70 Conduit Street, London W1S 2GF or downloaded from our website vontobel.com/am. **Italy**: 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 2, 20123 Milano, telefono: 0263673444, e-mail: clientrelation.it@vontobel.com. The fund and its sub-funds are not available to retail investors in **Singapore**. Selected sub-funds of the fund are currently recognized as restricted schemes by the Monetary Authority of Singapore. These sub-funds may only be offered to certain prescribed persons on certain conditions as provided in the "Securities and Futures Act", Chapter 289 of Singapore. This document was approved by Vontobel Pte. Ltd., which is licensed with the Monetary Authority of Singapore as a Capital Markets Services Licensee and Exempt Financial Adviser and has its registered office at 8 Marina Boulevard, Marina Bay Financial Centre (Tower 1), Level 04-03, Singapore 018981. This advertisement has not been reviewed by the Monetary Authority of Singapore. The fund is not authorized by the Securities and Futures Commission in **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 doubt about any of the contents of this document, you should obtain independent professional advice. This document was approved by Vontobel (Hong Kong) Ltd., which is licensed by the Securities and Futures Commission of Hong Kong and provides services only to professional investors as defined under the Securities and Futures Ordinance (Cap. 571) of Hong Kong and has its registered office at 1901 Gloucester Tower, The Landmark 15 Queen's Road Central, Hong Kong. This advertisement has not been reviewed by the Securities and Futures Commission.

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 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 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