

Vontobel Fund – Emerging Markets Blend

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

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Market developments

For markets, one of main drivers through Q3 was the US-Iran conflict, and the knock on effect on oil prices and inflation. Initially, the quarter got off to a rocky start, with oil prices surging back as Trump declared the US-Iran MoU was “over”. Meanwhile, as both sides resumed strikes, Brent crude rapidly moved up from around \$73/bbl going into the quarter, to close above \$100/bbl by the end of it. Central banks shifted in a hawkish direction over Q3, with the Fed, the ECB and the Bank of Japan all delivering a rate hike. For the Fed, this was the first hike since 2023. One factor giving central banks the space to hike rates was resilient growth. Indeed, the flash PMIs for September showed that if anything, growth was accelerating across many of the world’s biggest economies. However, that backdrop of building inflation and strong growth proved very negative for sovereign bonds, which lost ground around the world. Real rates, specifically, moved notably higher. Volatility increased but in an orderly manner so far. There are no signs of capitulation just yet.

So fixed income generally had a tough third quarter and EM Fixed Income was no exception. In terms of leaders and laggards in the EM fixed income space, perhaps surprisingly, the local currency (GBI-EM, valued in USD, “LC”) outperformed relatively compared to the other two main segments of the market. The local currency index delivered a -0.94% absolute return over the quarter. Second “best” was the typically more defensive EM Hard currency Corporate segment of the market (CEMBI BD – “EMC”) which delivered an absolute quarterly return of -1.83%, whilst the worst performer was the EM HC sovereign (EMBI GD – “EMD”) which trailed with -3.86%.

The “Equal Weighted” benchmark which is used in the Vontobel Blend strategy, which is a third weighting of each of the above three indices, delivered an absolute return of -2.21%.

In terms of benchmark drivers, the LC benchmark is typically broken down into three elements; carry, EM local currency price movements and EM LC interest rate movements. Carry was positive (as always) delivering +1.47%. LC (FX) spot prices receded -0.67% when valued in USD, as the USD was stronger over the quarter on strong economic data. Spot prices of some EM currencies weakened, such as Turkish Lira (managed depreciation by the Turkish authorities) which receded 13% in the quarter or Indonesia Rupiah which continues to weakened and gave back -7% versus USD in the period. On the other hand, Colombia Peso continued to benefit from the favourable presidential election result and appreciated +12% over the quarter. The AI trade also

started impacting EM currencies with low yielding Korean Won finally taking off, +6% over the quarter.

EM Interest rates were the main detractor at -1.77%. Indeed, rates globally were much higher over the quarter. The LC benchmark yields increased by 0.44% over the quarter to finish at 6.54%. As a comparison, US 10 year treasuries increased +0.81%. We observed that whilst Asian local rates were somewhat defensive and rose a modest 0.19%, European local rates were much more affected and behaved more in line with core European developed market rates and surged a full +1.2% over the quarter.

EM hard currency, whether sovereigns or corporates, were faced with the same head/tail winds. The main detractor was clearly the significant rise in US treasury yields. The impact of higher US yields was more important in the sovereigns, which have longer duration than corporates. The impact on the EM HC sovereign benchmark’s absolute performance was a full -3.73% in Q3. For EM HC Corporates, a still difficult -2.3%. Spreads, both sovereign and corporates, were however well behaved notwithstanding some weakness in September. Spreads finished modestly wider over the quarter, the contribution to absolute benchmark performance from Corporates was +0.52% (the carry outweighed the spread widening), -0.1% for Sovereigns.

Portfolio review

Over the quarter, aggregate duration was increased and more specifically we added US Treasury duration in the latter part of September as the rates sell off accelerated.

In terms of currency, the modest overweight in USD compared to EM local currency was increased as the notably higher US rates should make USD relatively more attractive.

Within EM currencies, we were particularly active in Frontier currencies. We notably increased to Nigeria Naira and Ghana Shilling whilst reducing exposure to Egyptian Pound. In Asian currencies, we added Malaysia Ringgit and Indonesia Rupiah on relative underwhelming performance whilst taking profits on Korean Won after its strong rally. In Latin America, we reduced exposure to top performing Colombia Peso and also trimmed exposure to Argentina Peso, whilst adding to Peruvian Sol now that the political situation is looking more appeased as well as to Mexican Peso, which has underperformed. In Europe, we reduced Romania Leu exposure.

In terms of credit, overall average rating remained the same at BB-, however, we did increase credit exposure marginally given

the September spread tension. In other words, high yield exposure was modestly increased. Sovereign and corporate exposure were increased whilst quasi sovereigns were trimmed.

Regional changes were somewhat reduced, but exposure to Asia was increased notably through Malaysia local government bonds. In Africa, Ghana and Nigeria were reinforced through local currency bonds whilst Angola, Egypt and South Africa were reduced through the hard currency channel. Latin America exposure remained constant, but we did rotate according to relative value preferences. We trimmed Colombia, Argentina whilst adding Ecuador, Brazil and EUR denominated Costa Rica hard currency. Overall carry is notably higher at the end of the quarter compared to the beginning (9.1% in local currency compared to 8.4% at the start of the quarter) and excess spread compared to the benchmark is 15bp or so higher.

Performance analysis

Vontobel Fund – Emerging Markets Blend delivered a negative absolute performance of -0.83% in Q3 2026, outperforming its benchmark by +1.39% (I share class in USD, net of fees).

All three main drivers delivered positive relative excess return, with credit being the most significant. Within credit, country allocation was strong, whilst bond selection was also positive. On the allocation side, performance was supported by oil exporters on the sovereign side, such as Cameroon or Congo, or Argentina exposure on the corporate side. In terms of bond selection, Aragvi (Moldova) rebounded after negative headlines damaged the bond price at the start of the quarter. In terms of bond selection, Brazilian corporate exposure performed well and more than compensated from some underperformance from the Turkish corporate overweight. Sovereign allocation was equally constructive, helped by good selection (EUR denominated bonds) in Costa Rica and amongst Supranational organisations. Bond selection was however negative in Romania.

Currency as well as rates strategies were also both positive. For the latter, the portfolio benefitted from Frontier exposure to both Nigeria and Uganda rates, as well as a Brazilian rates overweight in addition. There were no major negative laggards from local rates, although underweight China was a modest negative. The overweight to US treasury duration was a larger negative.

In terms of currency strategies, little to report from an allocation point of view; EM currency (and USD) were broadly neutral through the quarter. However, local currency selection was positive, driven primarily by Frontier overweights such as Kazakh Tenge or Nigerian Naira, but there was also contribution from Colombia Peso or Brazilian Real overweights too. On the downside, Frontier exposure was not universally positive. Our exposure to Uganda Shilling or Egyptian Pound were negative, as was an overweight in Argentinian Peso.

Outlook

Oil trade disruptions continue to materialize with the Houthis attacks on the Saudi East-West pipelines and the takeover of the Bab al Mandab Strait. In this context, oil and fuel prices have continued to rise despite the fact that more Gulf oil is now flowing through the Strait of Hormuz. Although we still don't see an imminent and permanent resolution to this conflict, nor to the Russia-

Ukraine conflict disrupting fuel refining capacity, we think the market is now perhaps underestimating the volume of oil flowing through the Strait of Hormuz, and therefore we don't think oil will continue to rally in the short term – barring additional trade disruptions, which are, of course possible. This could bring some relief to fixed income, following a month of violent repricing, which has been partly driven by the global oil imbalances.

The Fed hiked rates as expected in September, and another hike seems likely in December, which we think is positive for the credibility of the Fed. However, we think the market is currently pricing in too many hikes for 2027. The September's non-farm payroll of just 29,000 compared to 90,000 expected, downward revisions to the previous two months, and a slight uptick of the unemployment rate to 4.2%, as well as the August PCE headline and core y/y inflation coming below expectations at 3.4% and 3.0%, respectively, all support our view that the market is now too hawkish in its 2027 Fed hike expectations.

In our latest, EM fixed income quarterly: "Oil shock: six months on, EM debt remains strong" we highlighted that despite the unfavorable global environment, EM economies remain quite resilient, even those we call fragile oil importers are doing quite well. In the article, we explain that a combination of stronger policy frameworks, larger macroeconomic buffers, and even some good fortune, have all contributed to this resilience. Despite the context, sovereign rating upgrades across EM have continued. There's been some exceptions, like the untimely downgrade of Mozambique coinciding with this sovereign being the best performer of the month amid expectations of a new IMF program, and a creditor friendly solution to the issue of external debt amortizations commencing ahead of the expected ramp up of gas exports.

Other than that, we've seen upgrades across all regions and rating scales. From recent pandemic and post-pandemic defaulters like Belize and Sri Lanka coming out of CCC. To IG-rated Kazakhstan being upgraded to BBB by S&P.

Overall, we acknowledge that the global outlook is less constructive than we thought three months ago. Geopolitical uncertainty is significantly higher than expected, global financial conditions are likely to become less accommodative, and on aggregate, valuations generally do not appear that attractive in the current context, although relative value opportunities continue to abound. That said, we believe EM fundamentals remain solid, as demonstrated by the economic resilience observed so far. Inflation remains contained, although it is likely to stay elevated given higher hydrocarbon prices and the low probability of a definitive near-term solution to the ongoing geopolitical conflicts.

Against this backdrop, we believe EM fixed income may continue to offer attractive diversification benefits at a time when exposure to the AI boom across large parts of equity markets, including EM stocks due to their exposure to Taiwanese and Korean semiconductors, is becoming a common driver. In our view, there is still a range of idiosyncratic return drivers in EM fixed income that can contribute to portfolio diversification. Moreover, while valuations appear less attractive than they did last year, we believe the asset class continues to benefit from a favorable carry environment.

Fund characteristics

Fund name	Vontobel Fund – Emerging Markets Blend
ISIN	LU1256229680
Share class	I USD
Benchmark	40% JPM EMBI Global Diversified + 40% JPM GBI EM Global Diversified + 20% JPM CMBI Broad Diversified to 28.2.2019, J.P. Morgan EM Blended (JEMB) Equal Weighted thereafter
Inception date	24.8.2015

Historical performance (net returns, in %)

Time period	Fund	Benchmark	Time period	Fund	Benchmark
MTD	-2.1%	-2.5%	2025	19.8%	14.1%
YTD	4.1%	0.1%	2024	11.6%	3.9%
1 year	8.5%	2.7%	2023	16.7%	11.0%
3 yrs p.a.	15.4%	8.5%	2022	-15.5%	-13.9%
5 yrs p.a.	6.2%	2.3%	2021	6.9%	-3.3%
10 yrs p.a.	6.9%	3.0%	2020	2.2%	5.1%
ITD p.a.	8.0%	3.9%	2019	14.2%	14.1%
			2018	-5.2%	-4.4%
			2017	20.2%	11.8%
			2016	20.6%	10.1%

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.

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- 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.
- 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.
- 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.
- 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.
- 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.
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