Monthly commentary / 30.06.2020
Vontobel Asset Management

Vontobel Fund - Future Resources

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

Market developments
Global equities started off strongly in June, before giving up about half of the gains due to a resurgence of new Covid-19 cases in parts of the US and elsewhere. Investors continued to embrace risk in June. While the first leg of the rally was driven by investor sentiment and liquidity, it continued this month with the third driver of equity returns, i.e. growth, with a number of indicators turning increasingly positive. This was particularly true for the US with a flurry of strong economic data surprises. Economists and analysts revised their estimates up sharply to price in a more rapid recovery in economic activity. Conversely, policymakers continued their efforts to alleviate the impact of the pandemic, with central banks cutting rates further in June.

The green shoots of recovery made commodities rallying. Copper and aluminum prices, a barometer of global growth, rose strongly. Also oil prices joined the upswing in June, despite still high inventory levels. Nonetheless, further climbing prices of silver and gold reflect existing fears that the resurgence of Covid-19 cases might throttle the normalization of economic activity.

Portfolio review
By the end of June, we had 38 positions versus 41 a month ago. We sold the remainder of Anton Oilfield, but also exited our position in CIMC Enric, as expansion plans in China are very vague for LNG (liquefied natural gas) businesses. Furthermore, we sold Tyson Foods. The big meat producer should have benefited from a significant rise in pork exports to China due to the swine flu. Yet a novel virus causing the Covid-19 disease forced a lock-down of factories, which made exports collapse. As a result, we no longer deemed the investment attractive. We invested the proceeds in our existing positions within advanced materials, such as Epiroc, a mining equipment manufacturer with an attractive offering to automate mining activities, and Sibanye Stillwater, a producer of palladium. This metal is in high demand, while supply is limited. We also added to battery materials suppliers, such as Lundin Mining and IGO, given renewed incentives for electric vehicles and strong demand for e-bikes and e-scooters. Furthermore, the massive policy and central bank relieve programs tend to push real assets up, eventually boosting mining companies whose current valuations are low.

Performance analysis
In June, the fund outperformed global equities thanks to our favorable stock selection. While allocation benefited from inherently low exposures to the weak healthcare, utilities and communication services sectors, our large exposure to the poor energy sector performance was offset with favourable stock selection. Conversely, we have limited exposure to the high-performing information technology sector and stock selection was a detraction too. Within the materials sector, allocation as well as selection contributed positively. Particularly our holdings related to the supply chain of electric vehicles, be it materials suppliers or battery cell manufacturer. As a result, the highest contributors were our positions in LG Chem, Ivanhoe, and Lundin Mines. In contrast, the biggest detractor was our position in Clean Teq Holdings, as the company failed to secure an investment partner for its nickel-cobalt-scandium project, further delaying the mine development. However, given the urgency for additional battery materials, car manufacturers will urge their suppliers to invest in mines, hence we believe that new potential partners may show up soon.

Outlook
Most of the countries continue to focus on getting their economy back on track, even though Covid-19 infections are not declining on aggregate. Many investors seem to take in stride the current negative impact on earnings. However, whether equity markets can withstand renewed lockdowns in most affected regions or cities remains to be seen. We doubt that economic activity can recover as swiftly as the markets might reflect. Nevertheless, deep crises tend to accelerate the structural changes already underway. A careful stock selection is warranted, balancing financial and operational resilience with opportunities lying ahead. Although private consumption may be subdued for a prolonged time, investments to improve supply chain resilience are likely to increase. Furthermore, an increasing number of end-consumers not only require a reliable energy supply, but also goods and services in line with ethical standards and with a lower carbon footprint. Generally, regulators tighten the screws regarding corporate responsibility and environmental requirements, and new manufacturing technologies as well as better materials provide

economically viable solutions. From our standpoint, the disruptions induced by the Covid-19 pandemic may accelerate a shift towards more resilient supply chains in energy and materials for the low-carbon society. We believe that companies the Vontobel Fund - Future Resources is investing in are well-positioned to benefit from these longer-term opportunities.

Performance (in %)

Net returns			Rolling 12-month net returns			
EUR	Fund	Index	Start date	End date	Fund	Index
MTD	2.9	1.7	01.07.2019	30.06.2020	-18.3	4.3
YTD	-15.5	-5.8	01.07.2018	28.06.2019	-8.3	9.0
2019	10.4	30.0	01.07.2017	29.06.2018	8.9	8.5
3 years p.a.	-6.6	7.2	01.07.2016	30.06.2017	-0.8	15.1
5 years p.a.	-6.3	6.7	01.07.2015	30.06.2016	-10.7	-2.5
10 years p.a.	1.2	10.9	Index: MSCI World Index TR net			
Since launch p.a.	4.3	11.8				
Launch Date		17.11.2008	Share class: I ISIN: LU0384406327			

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 due to changes in the rates of exchange between currencies.

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