Monthly commentary / 31.07.2020
Vontobel Asset Management

Vontobel Fund - TwentyFour Absolute Return Credit Fund

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

Summary

- Despite signs of resurgent Covid-19 cases in a number of regions, the strong technical picture kept markets on a firm footing and periods of weakness were short-lived
- Further gains in July saw fund returns turn positive year-to-date, led by corporate hybrids with all other sectors in the green
- Regional flare-ups in Covid-19 cases are blurring the economic outlook, but valuations in some parts of credit remain attractive enough that in our view investors are being well compensated for future risks

Market developments

Covid-19 updates continued to dominate news flow as the number of cases globally topped 15 million, with nearly half of those in the US, Brazil and India (which also have around 40% of the fatalities). With cases in the US spiking again, some states had to pause their planned re-openings or introduce local lockdowns, which became a trend mirrored in parts of Europe as well, such as the UK and Spain. However, despite fears of a second wave, the strong technical picture kept markets on a firm footing and periods of weakness were very short-lived.

Globally governments kept up their accommodative stances, with many increasing stimulus and support. In the US, the government looked for approval from congress for a further $1tr of stimulus, largely aimed at supporting individuals, while in the EU, leaders finally approved the €750bn EU recovery fund, which consisted of €390bn of grants and €360bn of low interest loans for member states. In the UK, Rishi Sunak, the Chancellor of the Exchequer, issued a summer statement announcing several measures to support businesses and individuals.

The biggest event in July for most market participants was the start of the Q2 earnings season, with US banks leading the way. Bellwether JP Morgan was first out and while Q2 profits were down due to loan loss provisions, the drop was smaller than analyst estimates and the bank set a record for trading activity with its FICC revenues up 120% year-on-year (YoY), starting a tread for blockbuster trading results. In the post-earnings call, CEO Jamie Dimon painted a slightly bearish picture, stating that there is still much uncertainty ahead regarding the US recovery, though most analysts focused on the positive performance and US banks in general exceeded analyst expectations. European banks reported later in the month, with fairly similar results; provisions were mostly increased, but capital ratios and buffer levels also grew and most banks look resilient in the face of what is sure to be rising NPLs and defaults going forward. The big US tech companies also reported late in July, beating consensus estimates and taking the top six stocks in the Nasdaq index to a valuation of around $6.9tr after the earnings releases.

Economic data was mixed, with China's Q2 GDP surprising to the upside at +3.2% YoY vs 2.4% expected, while some data out of the US disappointed. For example, US Q2 GDP was down 32.9% on an annualised basis, and while this was well-flagged and marginally better than expectations, it still had a negative impact on sentiment. Germany's Q2 GDP print had a similar impact, down 10.1% vs. expectations of -9.0%.

Elsewhere, tensions between China and the US continued to increase with the closure of consulates and threats of sanctions on officials and entities from both sides. On the Brexit front, the UK and the EU had a series of meetings to try to negotiate a trade deal, but to no avail, and it seemed there were still significant gaps between the two sides.

Portfolio review

Again, all sectors were green, with corporate hybrids leading the pack and rallying +1.46%, with Centrica up a staggering +6.95%. The insurance sector fared best within financials, up +1.14% vs. banks at +0.96%. Non-financial corporates rallied +0.53%, exactly the same as secured bonds, which were also up +0.53%. And similarly to June, ABS continued its improvement with RMBS adding +0.64%. The laggard here was the fund's US Treasury exposure, which was only just positive at +0.04%.

Performance analysis
July posted positive gains exceeding those seen in June, with the fund up +0.78%. This further improvement continued to help mitigate the losses from March, and YTD returns therefore turned positive, with the fund now being up +0.50% for 2020.

Outlook
The broader narrative for us is one in which we believe credit will significantly outperform equities for a number of years, firstly because this has been the case in both of the other significant distress periods this century, but secondly because rewards to shareholders from dividends and buy backs are likely to be significantly curtailed. These are discretionary payments, after all, while coupons in the sorts of bonds we hold in ARC are not.

What we cannot predict is the ultimate depth of the recession that we will witness globally, or how long that recession will last. The policy response so far has been impressive, and will likely lead to a strong rebound that we are starting to see tentative evidence of early in Q3 – however we are also seeing regional flare-ups in new Covid-19 cases, leading to regional lockdowns, so the real economic outlook continues to be somewhat opaque.

Ultimately this means we think markets are likely to exhibit further volatility for some time yet. However, the valuations in some parts of credit remain attractive enough that in our view investors are being well compensated for future risks (even risks like substantial downgrades deep into HY).

By focusing on short dated IG, and keeping positions restricted to our best ideas only (that is why we limit portfolio line items to a maximum of around 100 bonds), we believe some of the highest risk-adjusted returns in all of fixed income can continue to be generated by this fund.

Performance (in %)

Net returns			Rolling 12-month net returns			
GBP	Fund	Index	Start date	End date	Fund	Index
MTD	0.8	n/a	01.08.2019	31.07.2020	1.4	n/a
YTD	0.4	n/a	01.08.2018	31.07.2019	3.1	n/a
2019	4.9	n/a	01.08.2017	31.07.2018	0.7	n/a
3 years p.a.	1.8	n/a	01.08.2016	31.07.2017	4.9	n/a
5 years p.a.	n/a	n/a	01.08.2015	31.07.2016	n/a	n/a
10 years p.a.	n/a	n/a	Index: n/a			
Since launch p.a.	3.0	n/a				
Launch Date		28.08.2015	Share class: I ISIN: LU1267852082			

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.

Disclaimer
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, FI, FR, GB, IT, LI, LU, NL, NO, PT, SE, 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 ("KIID"), 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").
In particular, we wish to draw your attention to the following risks: Investments in riskier, higher-yielding bonds are generally considered to be more speculative in nature. These bonds carry a higher credit risk and their prices are more volatile than bonds with superior credit ratings. There is also a greater risk of losing the original investment and the associated income payments. Investments in derivatives are often exposed to the risks associated with the underlying markets or financial instruments, as well as issuer risks. Derivatives tend to carry more risk than direct investments.
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 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 authorized distribution agencies and from the offices of the fund at 11-13 Boulevard de la Foire, L-1528 Luxembourg, the paying agent in Austria Erste Bank der oesterreichischen Sparkassen AG, Graben 21, A-1010 Vienna, 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 paying agent in Germany: B. Metzler seel. Sohn & Co. KGaA, Grosse Gallusstrasse 18, 60311 Frankfurt/Main, the paying agent in Liechtenstein: Liechtensteinische Landesbank AG, Städtle 44, FL-9490 Vaduz. Refer for more information on the fund to the latest prospectus, annual and semi-annual reports as well as the key investor information documents ("KIID"). These documents may also be downloaded from our website at vontobel.com/am.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 KIID can be obtained in Spanish from Vontobel Asset Management S.A., Spain Branch, Paseo de la Castellana, 95, Planta 18, E-28046 Madrid or electronically from atencionalcliente@vontobel.es. The KIID is available in Finnish. The KIID is available in French. The fund is authorized to the commercialization in France since 13-FEB-18. Refer for more information on the funds to the Document d'Information Clé pour l'Investisseur (DICI). The funds authorized for distribution in the United Kingdom can be viewed in

the FCA register under the Scheme Reference Number 466625. This information was approved by Vontobel Asset Management SA, London Branch, which has its registered office at Third Floor, 22 Sackville Street, London W1S 3DN 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 SA, London Branch, on request. The KIID can be obtained in English from Vontobel Asset Management SA, London Branch, Third Floor, 22 Sackville Street, London W1S 3DN or downloaded from our website vontobel.com/am. 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 3, 20123 Milano, telefono: 0263673444, e-mail clientrelation@vontobel.it. The Fund and its subfunds are included in the register of Netherland's Authority for the Financial Markets as mentioned in article 1:107 of the Financial Markets Supervision Act ("Wet op het financiële toezicht"). The KIID is available in Norwegian. Please note that certain subfunds are exclusively available to qualified investors in Andorra or Portugal. The KIID is available in Swedish. The fund and its subfunds are not available to retail investors in Singapore. Selected subfunds of the fund are currently recognized as restricted schemes by the Monetary Authority of Singapore. These subfunds may only be offered to certain prescribed persons on certain conditions as provided in the "Securities and Futures Act", Chapter 289 of Singapore. The fund is not authorized by the Securities and Futures Commission of 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 any doubt about any of the contents of this document, you should obtain independent professional advice. This information was approved by Vontobel Asset Management Asia Pacific Ltd., which has its registered office at 1901 Gloucester Tower, The Landmark 15 Queen's Road Central, Hong Kong.

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 Asset Management AG, its affiliates 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