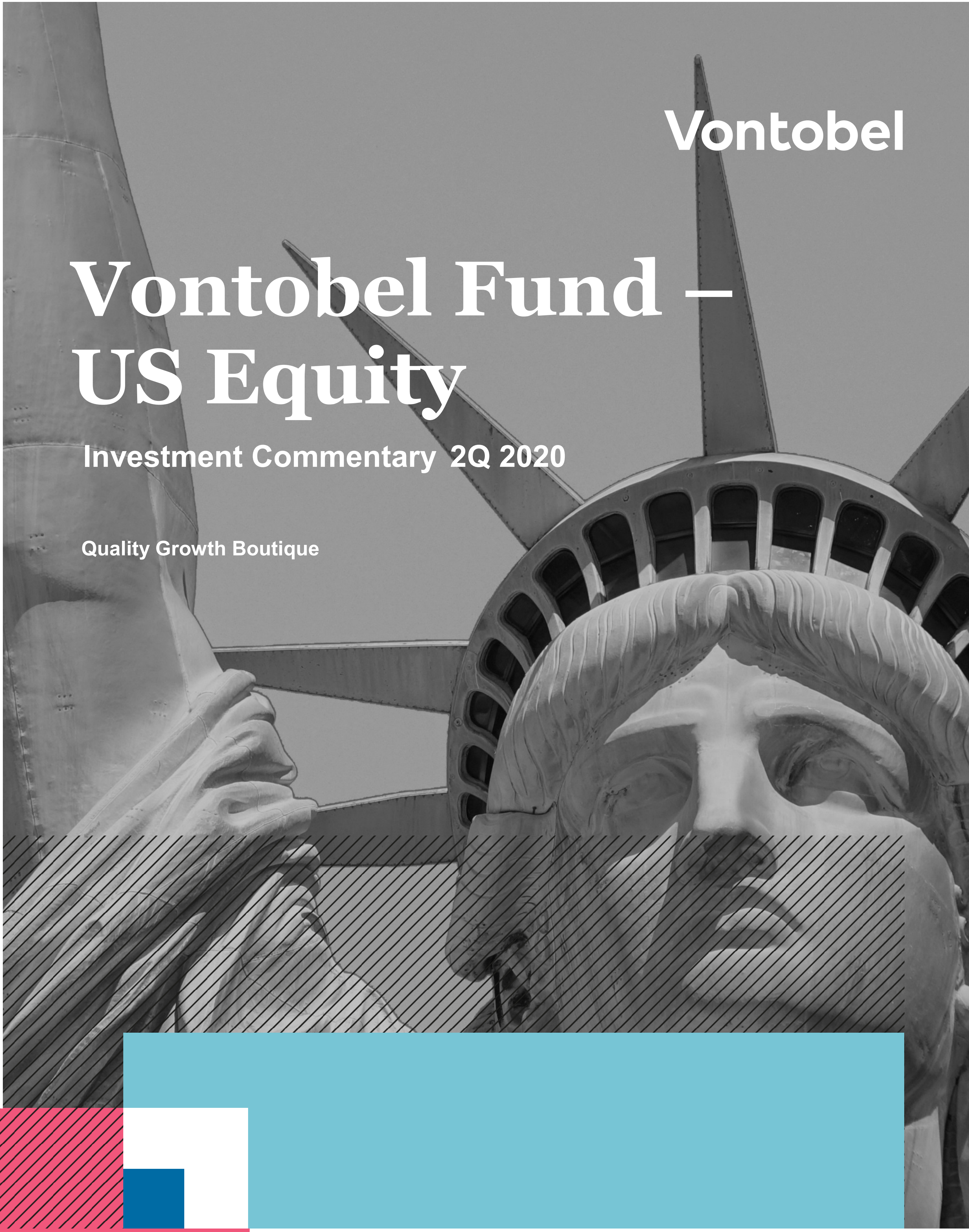


Vontobel

# Vontobel Fund – US Equity

## Investment Commentary 2Q 2020

Quality Growth Boutique

Asset Management

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

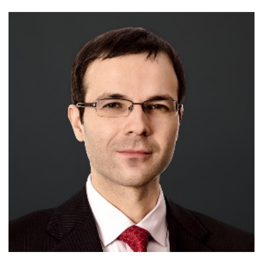




**Matthew Benkendorf**
**CIO Quality Growth**
**Portfolio Manager**
23 years in industry
21 years with Vontobel

**Edwin Walczak**
**Managing Director**
**Portfolio Manager**
42 years in industry
32 years with Vontobel

**Chul Chang, CFA**
**Executive Director**
**Portfolio Manager**
20 years in industry
11 years with Vontobel



**Igor Krutov**
**Executive Director**
**Director of Research**
26 years in industry
18 years with Vontobel

# Key Takeaways

– US equity markets rebounded strongly in the second quarter, fueled by extensive stimulus measures. Investors watched for positive news on the COVID-19 pandemic and looked through deepening economic turmoil. The Vontobel Fund - US Equity posted strong absolute returns but underperformed the S&P 500 Index, which posted double-digit returns in nearly all sectors.

– Relative performance of the US Equity Fund was hurt by our overweight to the consumer staples sector and stock selection in health care and financials. On the flipside, it was helped by our lack of exposure to utilities and stock selection in information technology.

– Given that the market has rallied substantially from its March lows, equity investors now need to be more discerning. The backstop provided by the monetary and fiscal response has created a false sense of security among investors who may be ignoring underlying risks. The US economy's healing process is likely to be much slower than the optimism suggested by the equity market rally. High quality businesses with reliable earnings growth tend to be less affected by market volatility, which we expect will continue.

– The information technology sector has enjoyed a strong run and there are merits in many tech businesses that have been well-positioned during the pandemic. However, it is important to be selective and disciplined as not all technology companies are quality businesses and the sector is prone to some cyclicality.

– While the Fed has signaled that interest rates will stay low for a couple of years, the low interest rates justify only a marginal increase in equity valuations. It is essential to assess a company's fair value and make conservative assumptions about interest rates and normalized growth rates for a business. We still see plenty of opportunities to invest in individual quality companies.

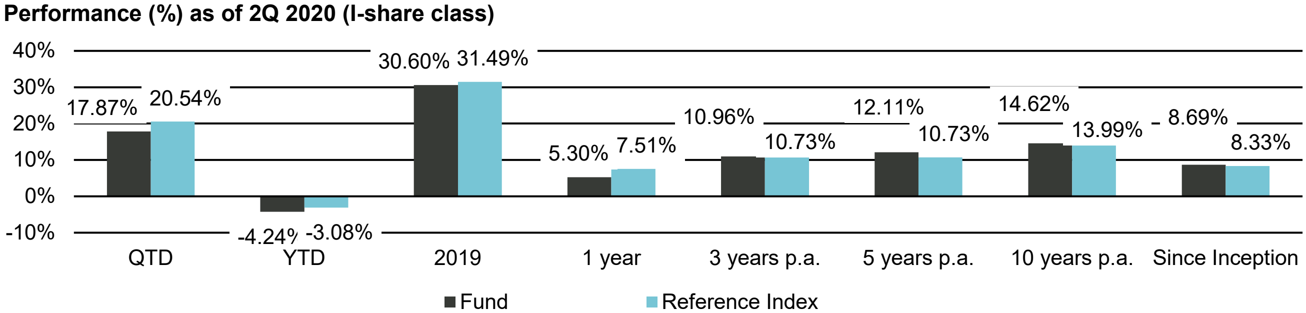
**Fund characteristics**

| | |
|---|---|
| **Share Class** | Vontobel Fund – US Equity I |
| **Reference Index** | S&P 500 Index TR |
| **Currency** | USD |
| **Inception Date** | 03/16/2007 |
| **Reporting Period** | 03/16/2007 - 06/30/2020 |

**Rolling 12-month net returns (in %)**

| **PERIOD** | **01.07.2019-30.06.2020** | **01.07.2018-30.06.2019** | **01.07.2017-30.06.2018** | **01.07.2016-30.06.2017** | **01.07.2015-30.06.2016** |
|---|---|---|---|---|---|
| Vontobel Fund – US Equity I | 5.30 | 14.34 | 13.47 | 20.38 | 7.68 |
| S&P 500 Index TR | 7.51 | 10.42 | 14.37 | 17.90 | 3.99 |

**Performance (%) as of 2Q 2020 (I-share class)**




**Past performance is no guide to future performance.** Performance data does not take account of commission or costs charged when units are issued or redeemed. The return of the fund may go down as well as up due to changes in rates of exchange between currencies. Source & Copyright: Vontobel Asset Management.

# Market Review

US equity markets recovered quickly from heavy first quarter losses, as investors looked past the deepening economic crisis. Despite ongoing uncertainty, nearly all sectors in the S&P 500 Index recorded double-digit returns.

By June, Congress's initial $2 trillion fiscal support package had grown to over $3 trillion. The Fed, meanwhile, pledged unlimited support for the economy, increasing its balance sheet to over $7 trillion as it bought up treasuries and corporate bonds. At the same time, it indicated that interest rates could stay close to zero through 2022. As US equities climbed, the economy continued to struggle. By quarter end, however, several economic indicators started to improve as some lockdown measures were gradually lifted and the economy started to reopen.

Stimulus-fueled markets also took their lead from developments in coronavirus case numbers, as well as potential vaccines and treatments. Positive results for Gilead's Remdesivir and cheap steroid Dexamethasone helped drive all shares higher, while concerns about a second spike in infections pushed markets down. An escalation in infections in southern US states pulled the market back in the second half of June, as Texas and Florida are delaying reopening measures in response to rising case numbers, resulting in weaker gains for the final month of the quarter.

**Global Markets**
Performance (%) as of June 30, 2020

| | SECOND QUARTER | 1 YEAR |
|---|---|---|
| MSCI All Country World Index | 19.22 | 2.11 |
| MSCI All Country World ex U.S. Index | 16.12 | -4.80 |
| MSCI EAFE (Europe, Australasia, Far East) | 14.88 | -5.13 |
| MSCI Europe Index | 15.26 | -6.78 |
| MSCI Japan Index | 11.61 | 3.10 |
| MSCI All Country Asia Pacific ex Japan Index | 18.42 | -0.33 |
| MSCI Emerging Markets Index | 18.08 | -3.39 |
| S&P 500 Index | 20.54 | 7.51 |

Source: FactSet, MSCI, S&P
Expressed in US dollars.

**S&P 500 Index**
Sector Performance (%) as of June 30, 2020

| | SECOND QUARTER | 1 YEAR |
|---|---|---|
| Consumer Discretionary | 32.86 | 12.59 |
| Information Technology | 30.53 | 35.90 |
| Energy | 30.51 | -36.09 |
| Materials | 26.01 | -1.11 |
| Communication Services | 20.04 | 11.08 |
| Industrials | 17.01 | -9.02 |
| Health Care | 13.59 | 10.90 |
| Real Estate | 13.22 | -2.01 |
| Financials | 12.20 | -13.92 |
| Consumer Staples | 8.12 | 3.62 |
| Utilities | 2.73 | -2.11 |

Source: FactSet, S&P
Expressed in US dollars.

# Outlook

## Drilling down into quality amid the rebound

– After COVID-19 struck, economic risk increased while stock prices fell. Equity valuations naturally improved, which provided a brief window of opportunity for investors to purchase quality companies at attractive prices. Given that the market has rallied substantially from its March lows, equity investors now need to be more discerning. The speed and aggressiveness of the monetary and fiscal response to the crisis have had a significant impact on the market recovery. This backstop has created a false sense of security among investors who may be ignoring underlying risks.

– Seasoned investors understand that the market is a discounting mechanism. The US economy's healing process is likely to be much slower than the optimism suggested by the equity market rally. High quality businesses with reliable earnings growth tend to be less affected by market volatility, which we expect will continue.

– The information technology sector has enjoyed a strong run and there are merits in many IT businesses that have been well positioned during the pandemic. However, investors must be selective and disciplined – not all technology companies are quality businesses and the sector is prone to some cyclicality.

– While the Fed has signaled that interest rates will stay low for a couple of years, the low interest rates justify only a marginal increase in asset valuations. Investors must assess a company's fair value and make conservative assumptions about interest rates and normalized growth rates for the business. We still see plenty of opportunities to invest in individual quality companies.

– Through our quality growth approach, we seek to identify businesses that can show resilience in downturns and prosper over the long term. By drilling down into company fundamentals, we look for the predictable long-term earnings power that can help reward investors.

Sincerely,

US Equity Portfolio Management Team
Matthew Benkendorf, Ed Walczak and Chul Chang

# “The US economy’s healing process is likely to be much slower than the optimism suggested by the equity market rally.”

Matthew Benkendorf discusses the backstop provided by monetary and fiscal stimulus and the importance of paying attention to valuations.

To access the full
3Q 2020 Outlook, *listen here*.[1]

**Matthew Benkendorf**
CIO Quality Growth,
Portfolio Manager

**Grant Bughman**
Client Portfolio Manager

[1] https://am.vontobel.com/en/insights/2020-3q-us-equity-outlook

# Performance Drivers[1]

In the second quarter, our US Equity Fund posted strong absolute returns but underperformed the S&P 500 Index. Investors saw outperformance by economically sensitive companies in consumer discretionary, energy and materials, as well as continued strong performance by information technology. Conversely, defensive sectors such as utilities and consumer staples posted positive returns that lagged their high-flying peers.

Relative performance of the US Equity Fund was hurt by our overweight to the consumer staples sector and stock selection in health care and financials. On the flipside, it was helped by our lack of exposure to utilities and stock selection in information technology.

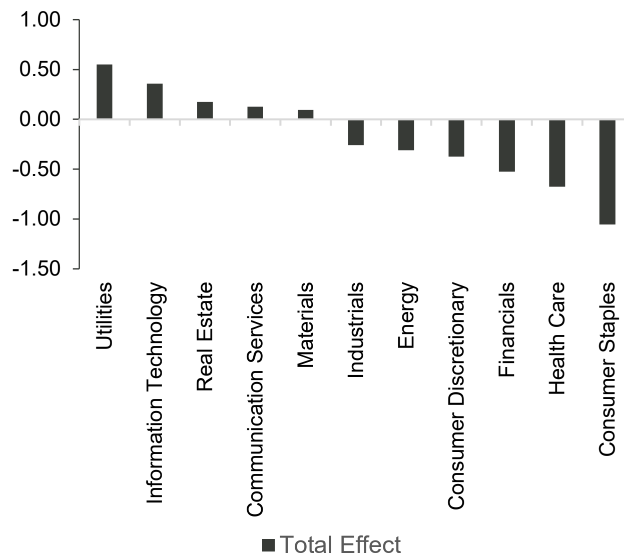
Stock selection within health care detracted from relative performance as our holdings in medical devices companies gained less than the overall market. In general, medical device companies **Becton Dickinson**, **Medtronic**, and **Boston Scientific** offer many of the characteristics we look for in high quality businesses. These include long-tail secular trends, stable and predictable earnings well into the future, and strong competitive positions with benign competition. Given hospitals' focus on treating COVID-19 patients during the pandemic, many elective procedures have been postponed, while even some non-COVID emergencies have gone untreated. As a result, all three of these companies have seen what we would argue is a temporary reduction in sales, which should come back once the pandemic runs its course.

Stock selection within financials hurt relative returns, though this was partially offset by our sector underweight to the benchmark. **Wells Fargo** and **M&T Bank** both underperformed as lower interest rates and a relatively flat yield curve negatively affected their net interest margins. Also, with the economy in recession, banks have started provisioning for higher credit losses, which is impacting their current earnings. We sold Wells Fargo during the quarter. Elsewhere, **Berkshire Hathaway** lagged in a strong market environment. The conglomerate's more cyclical businesses such as railroads have been hampered during the economic decline, which has not been completely offset by its more stable businesses such as insurance. Investors have also been somewhat disappointed that Berkshire did not more actively deploy some of its sizable cash position during the market downturn.

## Attribution

**Sector**

Vontobel Fund – US Equity vs. S&P 500 Index




Source: FactSet, S&P
Attributions for the quarter ending June 30, 2020.
Based on cumulative gross performance (USD) of the Vontobel Fund – US Equity. The gross rates of return are presented before the deduction of investment management fees, other investment-related fees, and after the deduction of foreign withholding taxes, brokerage commissions and transaction costs. An investor's actual return will be reduced by investment advisory fees. **Past performance is not indicative of future results.**
Total Effect: The net effect of the allocation and selection effects. A single-period sector or country's geometric total effect is calculated by multiplying the product of one plus the allocation effect (AE/100 + 1) by one plus the selection effect (SE/100 + 1) and subtracting one from the result before multiplying by 100.

[1] Please see full list of top and bottom 5 contributors at the end of this commentary.

In the consumer discretionary sector, **Ross Stores**, a leading off-price retailer, saw its share price move sideways during the quarter. While it rebounded off its mid-March low, investors are taking a cautious approach towards stocks that may be affected by a slow re-opening of non-essential services. While parts of retail may be slow to come back, we believe Ross is well placed to take advantage of a shifting retail environment while benefiting from the consumer's focus on value, which remains the company's key differentiator.

Information technology continued to be a bright spot as long-term trends accelerated during the lockdown. One such trend is the shift by the consumer away from cash towards digital payments. This is a move that we have identified and benefited from over the years. Among the companies in this space, **PayPal** is unique as it was one of the first and most successful digital-only payment networks in the US. Geared primarily to e-commerce, PayPal has benefited as more consumers shopped online and avoided physical stores during the past few months. **Synopsys**, which we added to the portfolio in Q1, stands to benefit from the increasing use of semiconductors in a range of products. Synopsys designs leading edge software and design tools for the development of semiconductors. As chips continue to become more complex and ubiquitous, Synopsys has been able to deliver consistently strong earnings and therefore has been a meaningful contributor to performance. Lastly, **Adobe** has experienced little impact from the pandemic and outperformed over the quarter and the year. Adobe offers a unique set of tools for the development of digital media and is a leader in the space. It benefits from high recurring revenue based on a subscription model that sees limited churn along with high growth rates.

Strong stock selection within the communication services sectors was primarily the result of our holding in **Electronic Arts (EA)**, a company which has thrived during the lockdown. Electronic Arts is a leading creator of video games across multiple platforms. Strong franchise titles, including FIFA, Madden and Apex Legends, along with ancillary revenues from live gaming, create a sizable advantage and high recurring revenues. EA experienced better than normal monetization during the lockdown as, without live sports and concerts, consumers had few other avenues of entertainment. Additionally, the company reached an agreement with the NFL and its players union to extend the licensing deal for its Madden franchise, giving EA exclusive use of team names and players' likenesses as it continues to develop the hit game. The deal removed some overhang on the stock, which added to its strong returns.

# Portfolio Changes[1]

In information technology, we entered positions in **Motorola Solutions** and **salesforce.com**. Motorola Solutions provides communication infrastructure, devices, software and services to enterprises and governments worldwide. Motorola strives to remain ahead of its peers through extensive R&D. The company has also added capabilities in command center and video solutions, with the intention of capturing more spend from its customer base as it leverages its existing business and brand.

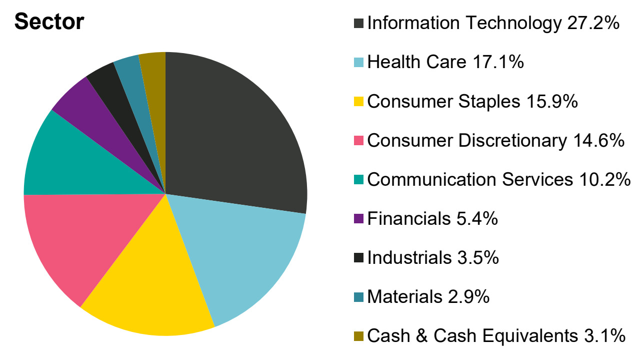
salesforce.com (CRM) is a software company and a pioneer in creating the SaaS business model, as well as an early user of now common offerings like free trial and the cloud. CRM's offerings are broad and include its Sales cloud, Service cloud, Platform cloud, Marketing cloud, E-commerce cloud and Integration cloud. We believe CRM is a highly recognizable brand with a strong and loyal following. By enabling productivity gains and value through mission critical business functions, we feel that CRM has become an important part of any company trying to stay competitive.

In consumer discretionary, we bought **Dollar General Corporation (DG),** one of the largest discount retailers in the US and the largest in the dollar store format nationwide. The company operates over 16,000+ stores selling consumables, seasonal products, home products and apparel. Within the grocery retail space, discount and convenience retailers are expected to be the fastest growing segments as consumers' time constraints continue to increase, while they look to reduce food costs. Moreover, DG is able to maintain and even accelerate same-store sales (SSS) during recessions.

In consumer staples, we bought **Hershey Company**, the number one US confectionary company with approximately 30% market share and six of the top 10 candy brands. About 90% of the company's revenues come from North America, of which 75% to 80% is chocolate candy, and the rest snack-related. The company operates in an oligopolistic market structure, with top players Hershey, Mars and Lindt/Ferrero controlling 80% of the market. We believe Hershey is a focused, well-run business with a slow but steady low single-digit revenue goal, margin expansion from pricing, innovation and line extensions.

We exited our positions in consumer staples company **Constellation Brands** and **Wells Fargo** to reallocate capital to better opportunities.

## Allocation

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Sector allocations are as of June 30, 2020 and based on the Vontobel Fund – US Equity.

[1] Purchases provided are the new purchases with positions greater than 50 basis points in the Vontobel Fund – US Equity for the period. Sells provided are all names that were fully liquidated in the Vontobel Fund – US Equity for the period. The holdings may not represent all of the securities purchased, sold, or recommended for advisory clients.

# Portfolio Data

### Top 10 Holdings[1]

| | SECTOR | COUNTRY | % OF PORTFOLIO |
|---|---|---|---|
| Microsoft Corporation | Information Technology | United States | 5.9 |
| Amazon.com, Inc. | Consumer Discretionary | United States | 5.2 |
| Mastercard Incorporated | Information Technology | United States | 4.1 |
| Alphabet Inc. | Communication Services | United States | 4.0 |
| UnitedHealth Group Incorporated | Health Care | United States | 3.8 |
| Visa Inc. | Information Technology | United States | 3.7 |
| Adobe Incorporated | Information Technology | United States | 3.5 |
| Johnson & Johnson | Health Care | United States | 3.4 |
| PayPal Holdings, Inc. | Information Technology | United States | 3.4 |
| Mondelez International, Inc. | Consumer Staples | United States | 3.3 |
| **Total** | | | **40.3** |

### Characteristics

| | VONTOBEL US[1] | S&P 500 |
|---|---|---|
| Market Capitalization (US$ bn), weighted average | 338.7 | 388.0 |
| P/E - Forecast 12-month, weighted harmonic average | 25.5 | 21.3 |
| Dividend Yield (%) | 1.1 | 1.9 |
| 5 Yr Historical EPS Growth (%) | 21.2 | 18.3 |
| Return on Equity, weighted average (%) | 27.5 | 25.5 |

### Risk Statistics (5 Year)

| | VONTOBEL US[2] | S&P 500 |
|---|---|---|
| Annualized Alpha | 2.2 | – |
| Beta | 0.9 | 1.0 |
| Sharpe Ratio | 0.8 | 0.7 |
| Annualized Standard Deviation | 13.8 | 14.8 |

### Top 5 Contributors[1] by Security (3 Months)

| | SECTOR | AVERAGE WEIGHT (%) | CONTRIBUTION TO RETURN (%) |
|---|---|---|---|
| Amazon.com, Inc. | Consumer Discretionary | 4.90 | 1.84 |
| PayPal Holdings, Inc. | Information Technology | 2.78 | 1.72 |
| Microsoft Corporation | Information Technology | 5.56 | 1.52 |
| Adobe Incorporated | Information Technology | 3.03 | 0.99 |
| Mastercard Incorporated | Information Technology | 4.15 | 0.96 |

### Bottom 5 Contributors[1] by Security (3 Months)

| | SECTOR | AVERAGE WEIGHT (%) | CONTRIBUTION TO RETURN (%) |
|---|---|---|---|
| Constellation Brands, Inc. | Consumer Staples | 0.10 | -0.33 |
| Wells Fargo & Company | Financials | 0.39 | -0.13 |
| Hershey Company | Consumer Staples | 1.12 | -0.06 |
| Berkshire Hathaway Inc. | Financials | 3.26 | -0.05 |
| Graco Inc. | Industrials | 1.24 | -0.04 |

### Top 5 Contributors[1] by Security (1 Year)

| | SECTOR | AVERAGE WEIGHT (%) | CONTRIBUTION TO RETURN (%) |
|---|---|---|---|
| Microsoft Corporation | Information Technology | 4.85 | 2.50 |
| Amazon.com, Inc. | Consumer Discretionary | 4.23 | 2.27 |
| PayPal Holdings, Inc. | Information Technology | 1.26 | 1.49 |
| Adobe Incorporated | Information Technology | 2.18 | 1.31 |
| UnitedHealth Group Incorporated | Health Care | 3.99 | 0.97 |

### Bottom 5 Contributors[1] by Security (1 Year)

| | SECTOR | AVERAGE WEIGHT (%) | CONTRIBUTION TO RETURN (%) |
|---|---|---|---|
| Wells Fargo & Company | Financials | 1.63 | -1.24 |
| Constellation Brands, Inc. | Consumer Staples | 2.05 | -1.21 |
| Anheuser-Busch InBev SA/NV | Consumer Staples | 2.48 | -0.99 |
| M&T Bank Corporation | Financials | 1.18 | -0.57 |
| PNC Financial Services Group, Inc. | Financials | 1.07 | -0.47 |

Portfolio data as of June 30, 2020
Source: FactSet. All returns are expressed in US dollars.
[1] Based on the Vontobel Fund – US Equity. The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. For more information on the calculation methodology or a complete list of holdings which contributed to overall performance during the period, please contact a Vontobel representative at ClientServices@vontobel.com.

[2] Based on gross performance of the Vontobel Fund – US Equity. The fund‘s gross rates of return are presented before the deduction of investment management fees, other investment-related fees, and after the deduction of foreign withholding taxes, brokerage commissions and transaction costs. An investor's actual return will be reduced by investment advisory fees.

**Past performance is not indicative of future results.**

# Reference Materials


**Blog**[1]
**Race, Role Models and the Future**


Subscribe to our **Equity Research at Work podcast on your favorite player:**

## About Us

Vontobel Asset Management's Quality Growth Boutique is the New York-based global investment management business dedicated exclusively to managing global and regional long-only equity portfolios. We seek to invest in high-quality growth companies with the goal of outperforming the benchmark, with less risk, over a full market cycle. Our goal is not unique – what sets us apart is our execution. One team of experts consistently applies the same approach to all our global equity products.

Vontobel Asset Management is a global multi-boutique asset manager with Swiss roots and investment teams in Zurich, New York and London. Vontobel Asset Management is one of the three business units of Vontobel Holdings AG.

Follow us on:

[1] https://am.vontobel.com/en/insights/race-role-models-and-the-future

**Opportunities[1]**

– "Quality growth" investment style aimed at the preservation of capital.
– Invests primarily in securities of companies that have relatively high long-term earnings growth and above-average profitability.
– Broad diversification across numerous securities.
– Possible extra returns through single security analysis and active management.
– Gains on invested capital possible.
– Use of derivatives for hedging purposes may increase subfund's performance and enhance returns.
– Price increases of investments based on market, sector and company developments are possible.

**Risks**

– Investment style may lead to more heavily concentrated positions in individual companies or sectors.
– Limited participation in the potential of single securities.
– Success of single security analysis and active management cannot be guaranteed.
– It cannot be guaranteed that the investor will recover the capital invested.
– Derivatives entail risks relating to liquidity, leverage and credit fluctuations, illiquidity and volatility.
– Price fluctuations of investments due to market, industry and issuer linked changes are possible.

[1] The listed opportunities and risks concern the current investment strategy of the fund and not necessarily the current Portfolio. Subject to change, without notice, only the current prospectus or comparable document of the fund is legally binding.

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