Vontobel Fund – Emerging Markets Corporate Bond

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

Investors in France should note that, relative to the expectations of the Autorité des Marchés Financiers, this fund presents disproportionate communication on the consideration of non-financial criteria in its investment policy.

Market developments

June was a typical "sell the news" month after "buying the rumor" in May, though risk appetite remains elevated. Following a strong May rally (+4.4% month-on-month), in anticipation of a US-Iran deal, global equities (MSCI World) corrected 0.72% in June, after the US and Iran signed a memorandum of understanding that is poised to lead to a peace deal eventually. Importantly, oil flows through the Strait of Hormuz started to recover rapidly through June, even before the preliminary agreement was signed, and are estimated at about 8.7 million barrels per day (mbd) as of the third week of June. That is still significantly lower than the roughly 20 mbd that used to flow prior to the war but about triple the average daily volume that passed in May. Brent oil prices declined by 20% toward the low USD 70s per barrel in June. Metal commodities corrected by 7.5%, although copper outperformed, dropping by just 3.02%.

Much of the action in fixed income was driven by core rates, which were boosted by two opposing narratives. On the one hand, the inflation shock has so far been less severe than feared. Combined with a sharp decline in oil prices, it capped the upward pressure on core yields: US 10-year Treasury yields ended the month 3 basis points (bps) higher, at 4.465%, while 10-year Bund yields fell 8bps to 2.86%. In the euro area, German and French consumer prices declined by 0.3% and 0.2%, respectively, according to preliminary data, which brought the year-on-year (y/y) inflation down to 2.3% (from 2.6%) and to 1.8% (from 2.4%), respectively. We have also seen signs of weaker inflation in Eastern Europe and other emerging markets (EM). In Poland, y/y inflation dropped from 3.1% to 2.5% in June, while in Mexico, the biweekly y/y inflation fell to 3.6 (from 3.8%) during the first half of the month. On the other hand, the markets have read Kevin Warsh's first meeting as the new Fed chair as hawkish and are now pricing in a higher probability of an interest-rate hike by September or October.

EM fixed-income indices performed well this month, outperforming global equities and global aggregate fixed income.

EM hard-currency sovereign bonds (EMBIG Div) rose 0.72%, led by the high-yield (HY) segment that rose 0.97%, while its investment-grade (IG) counterpart rose 0.45%. Latin America (+1.0%) and EM Europe (+0.95%) outperformed other regions, while the Middle East (-0.04%) laggedThree South American countries topped June's performance. Bolivia (+4.75%) recovered strongly, having underperformed after the issuance of the new 2031 bond in early May. The country's protests have finally faded, and the central bank has devalued the boliviano by almost 40% after running a fixed (and increasingly overvalued) exchange rate since 2011. This is seen as a positive move toward obtaining an International Monetary Fund (IMF)-supported program and exiting the slow-motion balance of payment crisis the country has been in for so long. But the country still needs to implement a large fiscal adjustment, and the political support for these necessary, albeit painful, appear to be very low. Colombia (+3.54%) was the second-best performing sovereign, following the victory of right-wing candidate Abelardo de la Espriella in the runoff presidential election. Argentina (+3.65%) was the third-best performing country. Its sovereign spreads compressed after S&P upgraded the country's rating to B- (the second B- rating in addition to Fitch's unsolicited B-), and the government secured a USD 2 billion loan from the World Bank, and another for USD 550 million from the Inter-namerican Development Bank. These multilateral loans, plus a larger trade surplus (driven by higher oil prices and higher oil production), are allowing the country to repay its Eurobond maturities this year without having to refinance in the markets, adding technical support to bond spreads.

Sovereign credit rating upgrades continued. Apart from Argentina (upgraded to B- by S&P), Uzbekistan was upgraded to Ba2 by Moody's reflecting sustained improvements in the country's institutional and policy framework.

The oil-related sovereign performance. Fragile, oil-importing countries performed well in June after the decline in oil prices – Sri Lanka (+3.95%), Pakistan (+2.70%), Kenya (+2.15%) – while oil-exporting countries underperformed. Venezuela (-3.90%) saw the worst performance of the month, after a Financial Times article reported that the total debt stock to be restructured is likely to be significantly higher than initially estimated, which would likely result in lower recovery values. HY oil exporters Gabon (-1.81%), Angola (-0.60%), Nigeria (-0.55%), and Cameroon (-0.83%) were among the worst performers, although they remain among the best-performing year-to-date, and are still in a much better financial position today than before the war.

EM hard-currency corporate bonds (CEMBI BD) returned 0.42% in June, with a positive contribution from both spread and rates. HY bonds outperformed IG, returning 0.63% versus 0.27%. Regionally, Latin America led performance (+0.78%), followed by Europe (+0.42%) and the Middle East (+0.37%). At the sector level, real estate and transport were the best-performing segments (+1.82% and +1.27%), supported by a recovery in airline-related credits. In contrast, consumer was the weakest sector (-0.07%).

This month's CEEMEA corporate headlines were dominated by Türkiye and Moldova. In Türkiye, Vestel Elektronik announced late in June that it had applied to Turkish financial institutions for "financial restructuring," with the aim of aligning the repayment and maturity schedule of its consolidated loans with the cash flow generated from operations. The move followed earlier February reports that Vestel was in discussions to restructure more than USD 500 million of bank debt and came alongside a parallel filing by parent Zorlu Holding under Türkiye's Financial Restructuring Framework to address part of its broader debt burden. Together, the filings underscored mounting pressure on the group given Vestel's weak cash generation, though details on scope and terms remain limited for now. Elsewhere, Moldova's Aragvi (Trans-Oil), a leading Black Sea agri-trader, came under pressure after a Ukrainian media outlet published a report toward the end of the month that contained allegations against the founder and owner of Trans-Oil Group. The bonds sold off following the publication, and management is engaging with bondholders. The company has rejected the reporting as false and engaged international counsel to pursue legal action where appropriate. We continue to monitor developments closely.

In LATAM corporate headlines, Braskem's restructuring deepened as the company filed for precautionary injunctive relief (tutela de urgência cautelar) and opened mediation proceedings to preserve a stable negotiating environment with financial creditors, while stressing that obligations to suppliers and customers continue in the ordinary course; the process nonetheless prompted S&P to downgrade Braskem's instruments to D. In parallel, control of the company transitioned from Novonor (formerly Odebrecht) to IG4 Capital, which now holds 50.1% of voting shares alongside Petrobras (47%), under a new governance framework in which Petrobras CEO Magda Chambriard chairs the board and IG4's Helcio Tokeshi becomes CEO, tasked with reorganizing the capital structure and improving operational efficiency. Encouragingly, following the change in shareholding, the new owners appear more willing to engage with creditors, and the choice to file for a cautelar – rather than moving directly to a judicial reorganization –- signals a preference to negotiate a consensual solution first. Raízen delivered a more constructive development, filing its Extrajudicial Reorganization Plan in the São Paulo court as part of its out-of-court restructuring and securing support from over 75% of the unsecured financial debt covered by the process. That was enough to meet the quorum required for court confirmation. The plan offers creditors a menu of options and features a BRL 3.5 billion cash capital increase to be subscribed by Shell, partial equitization of claims, and refinancing of the remainder, with a 30-day objection period to follow. With majority creditor backing already secured, the filing charts a clearer path toward resolving the capital structure, and expected recoveries sit above current market prices, even if finalization will take some time. Paraguayan meatpacker Frigorífico Concepción (FriCon) moved into default territory after missing a payment on its Bank of America loan, though it subsequently reached a forbearance agreement with BofA. Meanwhile, FS Bioenergia surprised the market by announcing a fifth plant while its fourth is still under construction. The decision follows Amaggi's acquisition of a 40% equity stake in FS, with the new plant located in an area where Amaggi has crops, pointing to clear feedstock synergies. While the expansion should support a more sustainable business profile over the long term, in the near term it is expected to pressure the balance sheet and drive a temporary spike in leverage, raising rating-downgrade risk.

Portfolio review

There was a lot of activity in the primary market in June, with EM HC issuance rising to USD 66.3 billion, up from USD 44.7 billion in May and USD 49.0 billion in June last year, driven primarily by EEMEA and Asia. Investor appetite for EM credit remained strong, with new issues well absorbed. EM fund flows also stayed supportive, led by continued inflows into sovereign and blended strategies, while corporate inflows remained more subdued.

We reduced risk exposure in African sovereigns while redeploying cash into selected new issues and idiosyncratic opportunities across regions.

We participated selectively in the primary market across regions and rating categories. As example in HY, we invested in a Turkish automotive spare parts manufacturer pricing above an 11% USD yield and a UAE offshore energy services provider with strong EBITDA margins offering a 9% USD yield. In IG, we participated in the issuance of Indonesia's sovereign wealth fund, which offered an attractive spread premium over the sovereign, and in a Saudi project bond with a sale-and-leaseback structure providing long-dated, contracted cash flows.

In the secondary market, we increased exposure to Minerva after bond weakness driven by a softer outlook for the Brazilian beef sector, as the negative cattle cycle is expected to pressure margins and keep leverage elevated. We viewed the sell-off as excessive, with the bonds already recovering nearly three points since our purchase. We also added exposure to Zorlu as structurally lower Turkish wholesale electricity prices, cash burn, and concerns around sister company Vestel continued to pressure the bonds. We believe valuations are now close to recovery value, offering an attractive asymmetric risk-return profile.

To finance these additions, we reduced exposure to oil-related sovereigns that had outperformed. We also took profits on positions initiated at the start of the Iran conflict, including short-dated OCP and Kenya sovereign bonds, after spreads returned to pre-conflict levels. We further reduced Eastern European and Saudi bank Tier 2 securities, where additional spread compression appears limited, and trimmed Türkiye sovereign exposure to maintain our overall overweight following the addition of Turkish corporate new issues.

Going into July, we believe the fund is well positioned, offering a yield of 7.9% (excluding any potential recovery value from the Braskem and Raízen restructurings), with an average rating of BB and a duration of approximately 4.2 years.

Performance analysis

The fund underperformed the benchmark by 0.36% in June, delivering a return of 0.06% (net, I share class in USD) versus 0.42% for the benchmark.

The underperformance was primarily driven by an idiosyncratic event, with our position in Aragvi detracting 32bps. Toward the end of the month, Ukrainian media published allegations against the founder and owner of Trans-Oil Group. The bonds sold off by nearly 25 points, largely on thin liquidity, before recovering around 15 points after management engaged with bondholders. The company has rejected the allegations and appointed international legal counsel to pursue appropriate action. Performance was also negatively affected by our higher-beta oil-related holdings, including Kosmos and GTE, which corrected following the sharp decline in oil prices. Among other idiosyncratic names, Braskem and FSBIOE also detracted. Braskem bonds were downgraded to D by S&P after the company filed for emergency creditor protection, while FSBIOE weakened after announcing the construction of a

fifth plant, delaying the expected deleveraging trajectory.
On the positive side, we benefited from the victory of right-wing candidate de la Espriella in Colombia's presidential runoff, primarily through our overweight positions in Ecopetrol and Nutresa. We also benefited from our overweight exposure to Argentina-related issuers after S&P upgraded Argentina's sovereign rating to B, while the government secured a USD 2 billion loan from the World Bank and a further USD 550 million from the Inter-American Development Bank. Finally, our overweight position in Pemex also contributed positively to performance.

Outlook

The US and Iran have agreed on a memorandum of understanding, although a comprehensive peace agreement has yet to be reached and the long-term framework governing transit through the Strait of Hormuz remains uncertain. Nevertheless, trade flows have recovered rapidly, roughly tripling over the first three weeks following the reopening. While further disruptions that would pose upside risks to oil prices and inflation cannot be ruled out, barring a return to full-scale conflict, we expect any market reaction to be more muted than during the recent escalation.
On inflation and the fixed income outlook, price pressures have so far remained far more contained than during the 2022 energy shock, despite similar geopolitical risks. Less expansionary fiscal policy, tighter monetary conditions, lower excess savings and softer labor markets have all contributed to a more limited inflation pass-through. With Brent oil prices down around 40% from recent highs and inflation surprising to the downside across several EM countries, including Eastern Europe, we expect this inflation episode to prove more transitory than in 2022, which is poised to support fixed income.
Risk appetite remains strong and is likely to continue to support EM fixed income over the summer. Fundamentals have remained resilient despite the geopolitical shock, with sovereign rating upgrades continuing to significantly outnumber downgrades. EM corporates also entered the period from a position of strength, with improving EBITDA growth, leverage well below US peers and stronger liquidity metrics. Technicals remain supportive, with investor positioning in EM corporates still relatively light and flows continuing to favor sovereign and blended funds over corporates. Brent prices above USD 70 per barrel also remain supportive for oil-related EM issuers.
However, with index spreads back near historical tights, we believe much of the improvement in geopolitical sentiment and global growth expectations is now priced in, limiting the scope for further macro-driven spread compression. The phase of broad beta-driven returns is behind us, and performance is increasingly being driven by issuer fundamentals and event risk. Given the significant dispersion across EM corporate credit, we believe that EM corporates are particularly attractive in a lower spread environment as there are multiple idiosyncratic stories that remain attractive for investors doing the credit work. In addition, we see a number of attractive debut issuers coming to market, which may further enhance the return potential of the asset class beyond what is implied by index-level spreads.

Fund characteristics

Fund name	Vontobel Fund – Emerging Markets Corporate Bond
ISIN	LU1305089796
Share class	I USD
Benchmark	J.P. Morgan CEMBI Broad Diversified
Inception date	13.11.2015

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	0.1%	0.4%
YTD	3.6%	2.2%
1 year	8.0%	6.8%
3 yrs p.a.	8.2%	8.0%
5 yrs p.a.	-0.2%	2.7%
10 yrs p.a.	4.9%	4.2%
ITD p.a.	6.0%	4.6%

Time period	Fund	Benchmark
2025	8.3%	8.7%
2024	10.4%	7.6%
2023	-3.5%	9.1%
2022	-14.7%	-12.3%
2021	4.6%	0.9%
2020	5.8%	7.1%
2019	15.6%	13.1%
2018	-0.6%	-1.6%
2017	16.2%	8.0%
2016	22.8%	9.7%

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.

Investment risks

— 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.
— 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.
— 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.
— 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.
— The sub-fund’s investments may be subject to sustainability risks. The sustainability risks that the sub-fund may be subject to are likely to have an immaterial impact on the value of the sub-fund’s investments in the medium to long term due to the mitigating nature of the sub-fund’s ESG approach. The sub-fund’s performance may be positively or negatively affected by its sustainability strategy. The ability to meet social or environmental objectives might be affected by incomplete or inaccurate data from third-party providers. Information on how environmental and social objectives are achieved and how sustainability risks are managed in this sub-fund may be obtained from vontobel.com/sfdr.

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