Vontobel Fund – Sustainable Emerging Markets Debt

Marketing document for institutional investors in: AT, CH, DE, ES, FI, FR, GB, IT, LI, LU, NO, SE.

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

September was a difficult month for fixed income. Global core yields rose sharply amid the re-escalation of the war in the Middle East and the tightening of monetary policy by central banks in response to the renewed energy shock. Brent crude prices rose above USD 100 per barrel again as the war extended to the Red Sea route that Saudi Arabia had used to bypass the Strait of Hormuz. The Houthis seized Yemen's Red Sea coastline, gaining control over the Bab al-Mandab Strait, targeted Saudi Arabia's Yanbu export terminal, and hit pumping stations of the East-West pipeline, forcing Saudi Arabia to shut it down in mid-September. The pipeline restarted at reduced capacity on September 22. However, crude flows through the Strait of Hormuz recovered over the month under US naval escort. According to Kpler, crude flows averaged 9.4 million barrels per day in September, the highest level since the war began, although this was only about 60% of pre-war levels. Flows through the strait recovered further in the last days of the month. Separately, US President Donald Trump rejected Iran's conditional offer to reopen the Strait at the end of September.

In the US, consumer prices rose by 0.4% month-on-month (m/m), leaving annual inflation at 3.4%, while core prices rose by 0.3% m/m and annual core inflation decelerated by 0.1 percentage points to 2.4%. Nonfarm payrolls rose by 162,000 in August, almost three times the consensus estimate, with upward revisions totalling 55,000 for the previous two months. The US Federal Reserve (Fed) unanimously raised its policy rate by 25 basis points (bps) to 3.75-4.0%, as expected, in its first hike since 2023. The median dot plot signals one further hike this year and none in 2027, although eight out of 18 dots point to one more hike in 2027. The market has turned significantly more hawkish than this, which we believe is excessive. Futures markets are pricing in one and a half hikes by December 2026, and another 60 bps in 2027. The European Central Bank (ECB) also hiked by 25 bps to 2.5% in September, with the market now pricing in another ECB hike in December and two more by April 2027, which we also consider overly hawkish. 10-year US Treasury yields rose by another 54 bps to 5.3%, while 10-year Bund yields rose by 26 bps to 3.6%. The US Dollar Index rose by 2% over the month amid a more hawkish perception of the Fed, while gold prices fell by 6.2%.

Risk appetite was somewhat reduced. Global equities (MSCI World) fell by 1.3%, while the S&P 600 Index dropped by 0.5%, and European equities (STOXX 600) were down by 2.5%. Emerging-market (EM) equities excluding China rose by 0.5%, but Chinese equities dropped by 4.7% amid weak domestic demand. Chinese retail sales expanded by just 0.4% year-on-year (y/y) in August, while fixed-asset investment contracted by 7.2% y/y in the first eight months of the year, with property investment down 19.9%. That said, industrial output rose by 5.2% y/y, supported by strong exports related to electric vehicles and batteries, industrial robots, and high-tech manufacturing.

Global fixed income fell sharply amid the rise in core yields, with the Bloomberg Global Aggregate declining by 2.4%. High-yield (HY) bonds performed in line with the wider market (2.4% as per the GABI HY) despite their lower duration, as HY spreads widened towards the end of the month. All EM fixed-income indices posted negative returns.

EM hard-currency sovereign bonds (EMBIG Diversified) fell by 3.3%, of which 2.7% was explained by the US Treasury selloff. There was some widening of HY spreads, particularly in countries like Argentina, Ecuador, and Ukraine, where a significant share of market participants were likely overweight. HY bonds (−3.4%) slightly underperformed their investment-grade (IG) counterparts (−3.2%), reversing August's pattern, as large idiosyncratic losses outweighed the benefit of their lower duration. Latin America (−4.0%) was the worst-performing region. Ecuador and Argentina underperformed, and long-duration IG sovereigns such as Mexico, Chile, and Uruguay (all -4.1%) also lagged.

JP Morgan methodological change in spread calculation. We are unable to quantify aggregate spread moves this month due to a change in the JP Morgan methodology for spread calculation. The most notable methodological change is the exclusion of defaulted securities from the calculation of index-level spreads, yields, and duration measures, while retaining them in total return calculations. As a result, headline EMBI spreads have mechanically tightened, largely reflecting the removal of defaulted Venezuelan and Lebanese bonds from spread aggregation rather than an underlying improvement in credit fundamentals.

The relative performance of hard-currency sovereign bonds was characterized by the contrast between idiosyncratic, low-beta credits and high-beta HY names, with some exceptions. Defaulted Lebanese bonds (+4.1%) and Senegalese bonds (+2.8%) that are expected to be restructured were the two best-performing sovereigns, while Mozambique (+2.5%) was the third-best performer. In the case of Mozambique, the bonds were in high demand in September after several investors became more confident that an International Monetary Fund (IMF) program would be agreed and that a restructuring could be avoided following an investor trip in early September. An IMF staff visit from September 9 to 18 also reported progress toward a new program, although no agreement had yet been reached. Both Moody's and S&P downgraded Mozambique to Caa3 and CCC, respectively, but investors were

unfazed by the downgrades. Lebanon also received an IMF staff visit in September, during which the Fund welcomed progress on budget management and the approval of amendments to the Bank Resolution Law. However, further changes to the Financial Gap Law are still required before a new IMF program can be approved. Senegal paid its September coupons as previously announced.
High-risk Latin American sovereigns Ecuador (-6.2%) and Argentina (-5.2%) were among the three worst performers. Ecuador had already been relatively weak amid declining presidential approval ratings and fiscal concerns related to the temporary modification of the domestic fuel pricing rules. These changes have led to a marginal decline in domestic fuel prices even as the cost of fuel imports has risen rapidly, resulting in a larger fuel subsidy, although it remains relatively manageable for now. The underperformance was amplified by an unexpected change of finance minister. Former Finance Minister Sariha Moya was well regarded by investors due to her good communication skills and commitment to the IMF program. The new finance minister is less well known, although he has experience in the ministry, and the reasons for the change remain unknown. Argentina has also been underperforming due to declining presidential approval ratings, compounded by the quarter-on-quarter contraction in real GDP in the second quarter of 2026, which has raised concerns among investors ahead of the November 2027 presidential elections. We believe it is still too early to price in these political risks. Moreover, Argentina recorded a current account surplus of USD 2.21 billion in the second quarter of 2026, compared with a deficit of USD 2.45 billion a year earlier. This represents a structural transformation of Argentina's external accounts, mainly driven by booming hydrocarbon production in Vaca Muerta, and has allowed the central bank to purchase over USD 14 billion in FX reserves since the start of the year. Ukraine (-6.6%) was the worst-performing sovereign. Visits by US envoys to Moscow and Kyiv on September 5 and 6 produced no breakthrough. Moreover, Ukraine's Finance Minister Sergii Marchenko disclosed unfunded budget needs for 2027 of USD 33 billion.

Portfolio review
We maintained the fund's average credit risk at BBB-, consistent with the benchmark rating. We increased duration slightly after the selloff of core rates, but overall duration is still close to the benchmark. We increased exposure to Nigeria's sovereign at an attractive spread pick-up over the conventional Eurobonds. We switched some of our Argentina exposure from foreign to local-currency USD-denominated bonds, as the spread continued to widen amid the ongoing selloff. We increased exposure to BOAD, given that Senegal's restructuring will not affect local-currency denominated debt, and therefore it will not affect the development bank. We also increased our overweight in Ecuador, following the underperformance of this month. We also took some profit in Mozambique and Lebanon.

Performance analysis
The fund underperformed its benchmark by 0.14% in August (net, I share class). Both selection and allocation contributed negatively to the relative performance. The main detractor of the performance was the Turkish utility Zorlu Enerji, which announced that it had appointed Houlihan Lokey and Servo Capital to restructure its debts. A liability-management exercise was expected, given the company's unsustainable capital structure and high interest burden, but the timing of the announcement came as a surprise. Our bond selection in Romania was also a detractor, as well as our overweight positions in Argentina and Ecuador. The sustainability exclusions to non-free countries such as Egypt and Bahrain were the largest positive contributors to the relative performance this month, followed by our allocation to supranational institutions.

Outlook
Last month, additional oil trade disruptions continued to materialize, with the Houthis attacks on the Saudi East-West pipeline and the takeover of the Bab al-Mandab Strait, in line with risks we had highlighted over the previous two months. In this context, oil and fuel prices have continued to rise despite increased Gulf oil flows through the Strait of Hormuz. Although we still do not see an imminent and permanent resolution to this conflict or to the Russia-Ukraine war, which continues to disrupt fuel refining capacity, we believe the market may now be underestimating the volume of oil flowing through the Strait of Hormuz. As a result, we believe the potential for a further near-term rally in oil prices may be more limited, barring additional trade disruptions, which remain possible. This could provide some relief to fixed income following a month of sharp repricing, which has been partly driven by imbalances in global oil markets.
The Fed hiked rates as expected in September, and another hike appears likely in December, which we believe could support the Fed's credibility. However, in our view, the market is currently pricing in too many hikes for 2027. September nonfarm payroll increased by just 29,000, compared with expectations of 90,000, while there were downward revisions to the previous two months and a slight uptick in the unemployment rate to 4.2%. In addition, August PCE headline and core y/y inflation came in below expectations, at 3.4% and 3.0%, respectively. This supports our view that the market is currently overly hawkish in its expectations for Fed rate hikes in 2027.
Despite the unfavorable global environment, EM economies have remained relatively resilient, including more vulnerable oil-importing economies. In our view, a combination of stronger policy frameworks, larger macroeconomic buffers has contributed to this resilience. Despite the challenging context, sovereign rating upgrades across EM have continued. There have been some exceptions, such as the recent downgrade of Mozambique, which coincided with the sovereign being the month's best performer amid expectations of a new IMF program, and a creditor-friendly solution to the upcoming external debt amortizations ahead of the expected ramp-up in gas exports. Elsewhere, we have seen upgrades across regions and rating categories, ranging from recent pandemic and post-pandemic defaulters such as Belize and Sri Lanka moving out of the CCC rating category to IG-rated Kazakhstan being upgraded to BBB by S&P.
Overall, we acknowledge that the global outlook is less constructive than we expected three months ago. Geopolitical uncertainty is significantly higher than expected, and we believe global financial conditions may become less accommodative. In aggregate, valuations generally do not appear particularly attractive in the current context, although we continue to identify relative-value opportunities. That said, we believe EM fundamentals remain solid, as demonstrated by the economic resilience observed so far. Inflation remains contained, although we believe it could 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 has the potential to provide diversification benefits at a time when exposure to the AI boom across large parts of global equity markets, including

EM stocks through their exposure to Taiwanese and Korean semiconductor companies, is becoming a common driver. In our view, certain idiosyncratic return drivers in EM fixed income may contribute to portfolio diversification. Moreover, while valuations appear less attractive than they did last year, in our view, current market conditions may continue to provide carry opportunities within the asset class.

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Fund characteristics

Fund name	Vontobel Fund – Sustainable Emerging Markets Debt
ISIN	LU2145396086
Share class	I USD
Benchmark	J.P. Morgan Screened Tilted and Reweighted EMBI Global Diversified Index
Inception date	30.9.2020

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	-3.7%	-3.4%
YTD	-1.0%	-2.0%
1 year	2.2%	1.0%
3 yrs p.a.	9.5%	8.6%
5 yrs p.a.	1.2%	0.9%
10 yrs p.a.	–	–
ITD p.a.	3.2%	1.3%

Time period	Fund	Benchmark
2025	14.1%	13.3%
2024	6.4%	5.7%
2023	11.0%	10.3%
2022	-20.0%	-18.9%
2021	3.7%	-2.3%
2020	–	–
2019	–	–
2018	–	–
2017	–	–
2016	–	–

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
- 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.
- Asset-backed and mortgage-backed securities, and their underlying receivables are often intransparent. 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.
- 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.
- Distressed securities have a higher credit and liquidity risk as well as uncertainty in any potential bankruptcy proceedings.
- The sub-fund also includes sustainability criteria in its investment process. This may mean that the sub-fund's performance is more positive or negative than a conventionally managed portfolio.
- 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.
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