Vontobel Fund – Sustainable Emerging Markets Local Currency 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

Global fixed-income markets experienced a significant correction in July, as the truce between the US and Iran proved to be fragile and short-lived. The US and Iran went back to war in the second half of the month and supposedly returned to the negotiation table during the first week of August. Available daily tracking data show near-zero trade flows through the Strait of Hormuz during the second half of July, though an unknown amount of untraceable trade was still taking place. Moreover, the Houthis declared a maritime embargo on Saudi Arabia on July 20 and hit two Saudi tankers in the Red Sea near the Bab al-Mandab Strait, forcing the Saudis to re-route tankers via the Suez Canal and down the Cape of Good Hope, which adds about 25 days for the oil to be delivered. Oil prices have been volatile, with Brent crude starting the month of July in the low USD 70s per barrel, briefly rising past USD 100 per barrel on July 23, and falling back to USD 80 per barrel in early August amid claims from the US administration that a deal to reopen the Strait of Hormuz was imminent. The US Federal Reserve (Fed) kept rates unchanged in July, which was widely expected, but the market didn't seem to welcome Chair Kevin Warsh's press conference. He argued that the market had "already done some of the Fed's inflation-fighting work, as rising long-end bond yields had already tightened financial conditions. The US Treasury curve steepened further after the Fed press conference, possibly implying that market participants have doubts about Fed's willingness to bring inflation back to target in the medium to long term. US 10-year yields ended the month +27 basis points (bps) higher at 4.7%, while 10-year Bund yields rose by 35 bps to 3.2%.

On the other hand, backward-looking inflation data were relatively benign. In June, US consumer prices fell by 0.4% (the first CPI decline in more than six years), bringing the annual inflation print from 4.2% in May to 3.5% in June. Core prices were unchanged in the month (0.0% m/m), bringing annual core inflation down from 2.9% to 2.6%. The Eurozone's consumer prices declined by 0.1%, but annual headline and core inflation were steady at 2.8% and 2.4%, respectively. Inflation surprises were mostly negative in emerging markets (EM), particularly in Latin America and CEE. Brazil's IPCA came below expectations in June and the first half of July, with annual inflation falling from 4.8% to 4.5% during the first half of July. Inflation remained below target in Hungary (1.7% y/y) and the Czech Republic (1.5% y/y) in June, while preliminary July data for Poland show a re-acceleration from an on-target 2.5% in June to 3% y/y in July.

Sovereign rating upgrades continued in July, with Argentina receiving its third B- equivalent rating, with Moody's upgrading the sovereign to B3, while Pakistan obtained its first B rating from S&P (Fitch rates the sovereign as B-, while Moody's is still at Caa1). Still, EM hard-currency fixed income indices experienced negative absolute returns on the back of the US Treasury selloff, while EM local-currency experienced positive returns as EM FX and carry more than compensated the rates selloff.

EM local-currency bonds (GBI-EM) outperformed in July, delivering a positive 0.3% total return (in USD) despite the global core rates selloff. In addition to the consistent 0.5% carry, EM FX added 0.5% to the monthly performance (partly reversing the 1.1% EM FX decline experienced in June), while EM rates detracted 0.7% as EM rates added 16 bps.

Latin America had by far the best performance, delivering a 2.9% monthly return, while EM Asia declined by 0.2% and EM Europe lost 0.9%. Colombia (+9.7%) saw the best performance of the GBI-EM, driven by a 9.1% FX return, the positive momentum of this high-carry currency continued after the election of right-wing candidate Abelardo de la Espriella in the presidential runoff in June. Dominican Republic (+5%) was the second-best performer in the index, with the performance mostly driven by a 27-bps tightening in yields, while the currency contributed with 1.8%. Brazil (+2.7%) was also among the top performers, mainly driven by the BRL (+1.9%). Opinion polls in Brazil are pointing toward a much tighter presidential race in October. President Luiz Inácio Lula da Silva is still in the lead, though it has narrowed to single digits over right-wing candidate Flávio Bolsonaro in most opinion polls.

Hungary (-3.4%) was the worst performer of the GBI-EM, with the forint losing 1.6% against the dollar (more against the euro) and bond yields rising by 48 bps. The correction started with the July 8 revelation from the finance ministry that the 2026 fiscal deficit would reach 7.5% of GDP, considerably higher than the initial 3.7% target that had been later revised to 5% and stated at 6.8% when the government handover took place. This is likely to result in a delay in the government's 2030 euro-adoption target. Despite the July correction, Hungary remains one of the best-performing countries year to date, with total returns of 11.5% in USD, but this correction also shows that it had become a crowded trade following Viktor Orban's defeat in the April presidential election.

Outside the benchmark, South Korea (+7.5%) was the standout performer, as massive foreign equity outflows triggered the unwinding of FX hedges, providing strong support to the won. Nigeria (+5.3%) also delivered a strong return, supported by higher oil prices, attractive real interest rates, improving macroeconomic fundamentals, and rising institutional investor interest. Kenyan

government bonds benefited from the ongoing central bank easing cycle, while the shilling remained resilient despite the headwind of higher oil prices.
On the negative side, Israel (-3.0%) gave back part of the previous month's gains as renewed geopolitical tensions weighed on both the shekel and long-dated government bonds. Ghana (-3.1%) came under renewed pressure as strong US dollar demand from local corporates drove cedi depreciation. Meanwhile, Zambia (-2.7%) and Egypt (-2.3%) underperformed due to pre-election uncertainty and the collapse of the ceasefire agreement, respectively.

Portfolio review
Our positioning remains anchored in our core view that local rates, particularly in Latin America and Central Europe, are likely to outperform EM currencies. This view is supported by the remarkable absorption of the energy supply shock, which has yet to generate meaningful second-round inflation effects across emerging economies. As a result, several major EM central banks have adopted a more dovish stance than markets had anticipated. In recent weeks, central banks in Hungary, Poland, South Africa, and Colombia have opted to remain on hold rather than deliver expected rate hikes, while Brazil appears poised to continue its easing cycle.
In contrast, we remain more cautious about EM currencies. The increasingly dovish stance of EM central banks is eroding future carry support, while higher US real rates, softer EM growth momentum relative to developed markets, and ongoing uncertainty surrounding the conflict in the Middle East all argue for a more selective approach. Although an imminently stronger US dollar is not our base case, we believe that, at this stage of the cycle, systemic risk is more attractively expressed through duration than through currency exposure
The main portfolio adjustments in July included further reallocation from Indian rupee-denominated supranational bonds into Indian government bonds, as well as a rotation from local Romanian government bonds into euro-denominated sovereign debt. We also increased exposure to short-end Turkish lira rates through supranational bonds and marginally added to local-currency government bond positions in Mexico, Colombia, and Uruguay.
By region, measured at the FX level, Asia remained the portfolio's largest exposure despite the reduction, accounting for 39% of total exposure, followed by Latin America (31.5%), Central Europe (16.5%), and Africa (12.5%). Frontier market positions were slightly increased to 11% of the portfolio, while cash holdings were broadly unchanged at 3.5%, while the allocation to supranational bonds decreased marginally to 23%.

Performance analysis
The institutional share class I gained 0.09% in US dollar terms in July, underperforming the GBI-EM Global Diversified Index by 22 bps over the month, bringing the half-year performance of the fund to +2.12% in absolute terms or +0.29% bps over benchmark. On the positive side, Latin America was by far the largest regional contributor to outperformance, driven primarily by positions in Chile, Colombia, and the Dominican Republic. This more than offset the weaker performance in Mexico, where local rates sold off alongside US Treasuries.
On the other hand, the main detractors were Central Europe and Asia. In Asia, the continued widening of the Indian rupee basis weighed on performance, causing supranational bonds to underperform the Indian government bond curve once again. In Central Europe, underperformance stemmed from local rates, which followed the selloff across eurozone yield curves.
Off-benchmark, the long Korean won position continued to play its role as a diversifier, benefiting from heightened volatility in Korean equities, which triggered significant unwinding of short KRW currency hedges. Frontier markets delivered mixed results, with strong carry gains from the Nigerian naira largely offset by weakness in the Egyptian pound.

Outlook
The US-Iran war remains intermittent. The June memorandum of understanding (MoU) proved fragile, with the US striking Iran during the second half of July, and the Houthis becoming more involved in the war by disrupting Saudi oil flows through the Bab al-Mandab Strait. In early August, the US-Iran war was again paused, and Iran said it was finalizing arrangements to jointly manage passage through the Strait of Hormuz with Oman. The US administration also confirmed that, together with Iran and Oman, they were about to announce a 60-day agreement on shipping through the Strait of Hormuz. We don't yet see a stable agreement that would definitively end the US-Iran war, but it appears both sides have incentives to ease oil transit through the strait. That said, we think further trade disruptions are possible, as the US and Iran do not seem close to agreeing on a comprehensive peace deal, including a new nuclear agreement.
The market has mostly priced in a partial reopening of the Strait of Hormuz, with oil declining below USD 80 per barrel during the first week of August. This is good news for inflation and fixed income generally. Moderate oil prices increase the probability that inflation prints will continue to be benign, which could justify a less hawkish reaction from global central banks than the markets are currently pricing in. US futures markets currently price in a Fed hike by October and a high probability of another by March 2027, while for the European Central Bank, markets currently price in a high probability of a hike in September or October and another by mid-2027.
Global equities were resilient in July, with the MSCI World rising by 0.5%. Although regional and sectoral performances were quite heterogeneous, we believe the observed resilience despite the core rates selloff indicates that risk appetite remains elevated. EM HY spreads were also relatively stable in July despite the temporary resumption of the US-Iran war, proving the point we made last month that markets would likely tend to look past additional trade disruptions if the MoU proved to be fragile. That said, we continue to see relative value opportunities arising amid the on-off war. In our view, EM fundamentals remain strong and did not deteriorate significantly with the war shock. In fact, the ongoing credit rating upgrade trajectory for EM sovereigns has continued unabated in Q2 2026 and into July.
The Fed's credibility debate, reopened after Warsh's latest press conference and his apparent reluctance to hike rates, entails interesting consequences for EM. A Fed that continues to fail to deliver on its inflation target, which seems to be the consensus of professional forecasters expecting average CPI inflation at 2.4% by 2028 (although with PCE at 2.1%), would favor EM FX over the medium term. We have been arguing since early last year that relatively lower EM inflation (vis-à-vis developed markets) constitutes a strong tailwind for EM FX going forward. We think this is likely to be the case. That said, there could be short-term sur-

prises. The new chair’s preference for providing little forward guidance is likely to result in higher core rates volatility; thus, while not our baseline, we would not rule out a more hawkish-than-expected Fed just yet. Thus, we continue to prefer EM rates over EM FX as a clearer expression of lower medium-term EM inflation relative to developed markets.

Fund characteristics

Fund name	Vontobel Fund – Sustainable Emerging Markets Local Currency Bond
ISIN	LU0563307981
Share class	I USD
Benchmark	J.P. Morgan GBI-EM Global Diversified Composite USD
Inception date	25.1.2011

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	0.1%	0.3%
YTD	2.1%	1.8%
1 year	10.2%	9.0%
3 yrs p.a.	6.6%	6.4%
5 yrs p.a.	3.7%	2.3%
10 yrs p.a.	3.3%	2.7%
ITD p.a.	1.6%	1.5%

Time period	Fund	Benchmark
2025	20.4%	19.3%
2024	-3.5%	-2.4%
2023	14.3%	12.7%
2022	-7.8%	-11.7%
2021	-8.2%	-8.7%
2020	8.3%	2.7%
2019	9.5%	13.5%
2018	-7.6%	-6.2%
2017	12.9%	15.2%
2016	11.3%	9.9%

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.
Since fund inception until 28.2.2018, the fund had different characteristics and performance was achieved under circumstances that no longer apply.

Investment risks

— 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.
— 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.
— Distressed securities have a higher credit and liquidity risk as well as uncertainty in any potential bankruptcy proceedings.
— Investments in securities with a lower credit quality means there is an increased risk that an issuer may fail to meet its obligations. The value of this investment may fall if an issuer's credit rating is downgraded.
— Using derivatives creates significant 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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