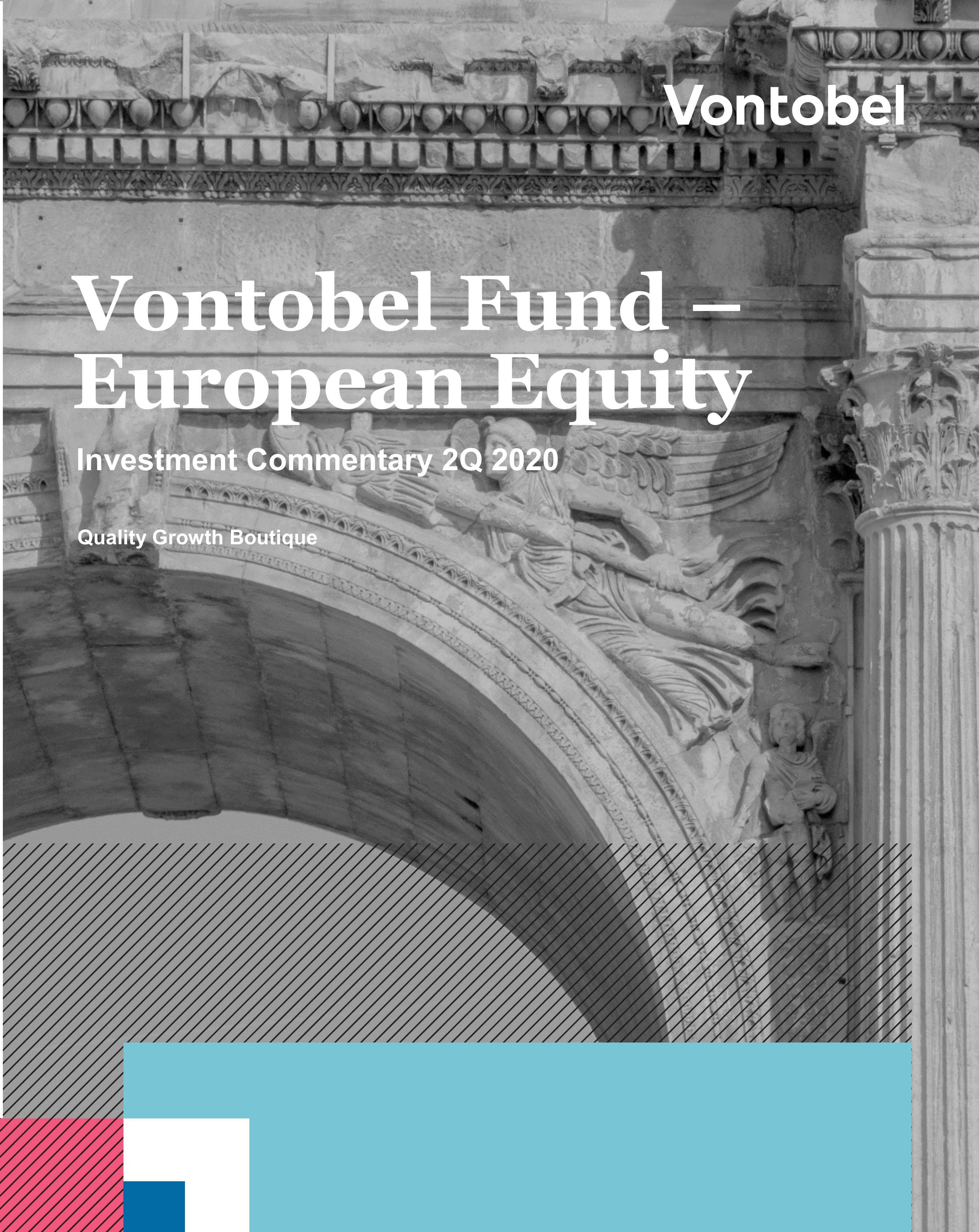
Vontobel

Vontobel Fund – European Equity

Investment Commentary 2Q 2020

Quality Growth Boutique

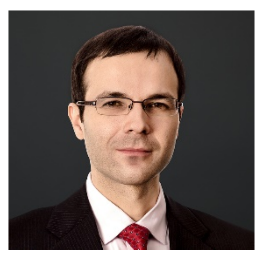


Asset Management

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

Donny Kranson, CFA
Executive Director
Portfolio Manager
21 years in industry
13 years with Vontobel

Markus Hansen
Director
Portfolio Manager
26 years in industry
4 years with Vontobel



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

Key Takeaways

– European 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 - European Equity posted strong absolute returns for the period, outperforming the MSCI Europe Index, which recorded double-digit gains.

– On a relative basis, the Fund's overweight to industrials and lack of exposure to energy added to performance, along with strong stock selection in information technology, communication services, consumer discretionary and financials. An overweight to consumer staples and stock selection within materials, consumer staples and health care detracted from performance.

– While damage has been done to the economy, Europe has done a relatively good job of protecting businesses and jobs through temporary measures such as paying workers' salaries. This is not the time to worry about the downside of actions taken. Further, governments and central banks have more capacity to act if required.

– Countries in Europe are starting to open up, which is important for the peak summer travel season. However, both businesses and consumers have been hit and have less to spend. Many consumers will also be nervous about the virus. Normalization will happen, but it will take time.

– Crises can lead to structural change. One positive step being seriously discussed is a European recovery fund that could lead to a more integrated and stable Europe over time. However, Brexit continues to be unresolved, and many hard parts of the negotiations remain, including ensuring a level playing field for UK and EU companies, and working out customs checks for goods crossing the Irish Sea.

– The current climate requires investors to be more discerning. Through our quality growth approach, we seek to identify businesses that would be resilient 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.

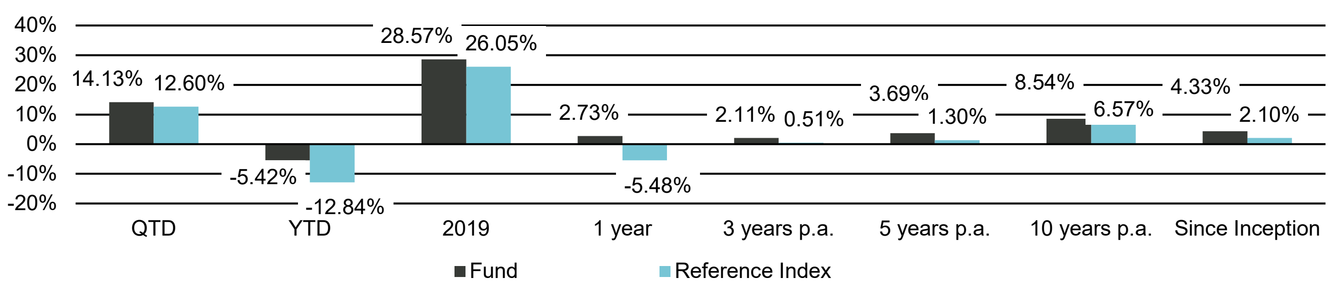
Fund characteristics

Share Class	Vontobel Fund – European Equity I
Reference Index	MSCI Europe Index TR net
Currency	EUR
Inception Date	04/03/2007
Reporting Period	04/03/2007 - 06/30/2020

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

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 – European Equity I	2.73	4.67	-1.01	10.71	1.71
MSCI Europe Index TR net	-5.48	4.46	2.85	17.96	-10.96

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



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

European equity markets bounced back quickly in the second quarter as investors looked past worsening economic conditions. Despite ongoing uncertainty, nearly all sectors in the MSCI Europe Index recorded double-digit returns.

Stimulus measures flowed at the domestic level as well as European Union level. Large fiscal packages from the likes of France and Germany were met by the extension of the European Central Bank's bond-buying program. At the same time, the European Union proposed a €750 billion crisis recovery fund to help the bloc's worst hit countries. The plan met criticism from the EU countries resistant to large-scale borrowing, but was broadly welcomed by markets as the Stoxx 600 reached a three-month high in June.

The UK also extended stimulus measures, including majority-payment of workers' salaries at hard-hit companies until October. However, the government dampened hopes of imminent tax cuts and infrastructure spending as it pushed back the announcement of further actions to the fall. UK and EU negotiators resumed face-to-face talks in June with a view to agreeing a post-Brexit trade deal by the end of October. However, the UK continued to rule out extending the transition period beyond the end of 2020, leading to persistent worries about disruption and damage to future trade.

While the pace varied, European countries began reopening measures in the second half of the period, as they sought to kick-start their economies before the summer season. Nevertheless, projections for the economic damage showed an extensive hit to GDP across the region in 2020. The IMF forecast declines of more than 10% for the Eurozone, as well as the UK.

Global Markets

Performance (%) as of June 30, 2020

	SECOND QUARTER	1 YEAR
MSCI All Country World Index	16.47	3.54
MSCI All Country World ex U.S. Index	13.44	-3.48
MSCI EAFE (Europe, Australasia, Far East)	12.23	-3.81
MSCI Europe Index	12.60	-5.48
MSCI Japan Index	9.04	-7.18
MSCI All Country Asia Pacific ex Japan Index	15.69	1.06
MSCI Emerging Markets Index	15.36	-2.04
S&P 500 Index	17.76	9.00

Source: FactSet, MSCI, S&P
Expressed in euros.

MSCI Europe Index

Sector Performance (%) as of June 30, 2020

	SECOND QUARTER	1 YEAR
Information Technology	23.36	12.14
Materials	20.31	-3.71
Industrials	19.46	-4.36
Consumer Discretionary	16.77	-9.41
Utilities	13.35	12.66
Communication Services	11.12	-13.44
Financials	10.67	-18.88
Health Care	10.33	16.91
Real Estate	9.99	-8.30
Consumer Staples	7.80	-1.39
Energy	-5.56	-38.51

Source: FactSet, MSCI
Expressed in euros.

Outlook

Opportunities and risks as Europe reopens for business

– European equities have recovered well ahead of the economic data. While damage has been done to the economy, Europe has done a relatively good job of protecting businesses and jobs through temporary measures such as paying workers' salaries. The next few weeks will show how quickly businesses bounce back as the economy is reopened.

– The combined forces of the US Federal Reserve with European and international central banks brings a lot of firepower to paper over fundamental cracks in the economy. However, this is a legitimate crisis and countries need to use the tools available to them. This is not the time to worry about the downside of actions taken. Further, governments and central banks have more capacity to act if required.

– Countries in Europe are starting to open up, which is important for the peak summer travel season. However, both businesses and consumers have been hit and have less to spend. Many consumers will also be nervous about the virus. Normalization will happen, but it will take time.

– Crises can also lead to structural change. One positive step being seriously discussed is a European recovery fund that could lead to a more integrated and stable Europe over time.

– Brexit continues to be unresolved, and many hard parts of the negotiations remain. The EU wants to ensure a level playing field to prevent the UK from undercutting EU companies by lowering tax rates, reducing standards for workers' rights, undermining environmental protections, or increasing state aid to companies. The two sides also need to work out customs checks for goods crossing the Irish Sea.

– Some consumer staples companies have not held up as well in this downturn as in the past because of where the products are consumed. Demand for alcohol in certain markets has shifted to home consumption, but the move has not been enough to offset the overall decline. Similarly, out-of-home consumption of food and refreshments, such as ice cream, has declined. As economies reopen, we expect those businesses to rebound.

– Earnings estimates have been beaten down for 2020, while 2021 earnings should still be below 2019 levels. The market rebound might indicate that either investors are looking through to 2022, or more likely are responding to short-term news around COVID-19 and stimulus measures. In the case of a severe second wave, the market recovery could prove fleeting. In that case, high quality stocks that have secular growth behind them should do well. And active managers can use volatility as an opportunity to take advantage of the swings in the market.

– The current climate requires investors to be more discerning. Through our quality growth approach, we seek to identify businesses that would be resilient 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,

European Equity Portfolio Management Team
Donny Kranson and Markus Hansen

“One positive step being seriously discussed is a European recovery fund that could lead to a more integrated and stable Europe over time.”

Donny Kranson considers the effects of stimulus, Brexit negotiations and the potential for another market downturn.

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

Donny Kranson
Portfolio Manager

Cheryl Gedvila
Client Portfolio Manager

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

Performance Drivers[1]

The Vontobel European Equity Fund posted strong absolute returns in the second quarter, outperforming the MSCI Europe index. Investors saw outperformance by economically sensitive companies in materials, industrials, and consumer discretionary, as well as continued strong performance from information technology. Energy was the lone sector to post a negative return and the more defensive consumer staples lagged.

On a relative basis, the European Equity Fund's overweight to industrials and lack of exposure to energy added to performance, along with strong stock selection in information technology, communication services, consumer discretionary and financials. An overweight to consumer staples and stock selection within materials, consumer staples and health care detracted from performance.

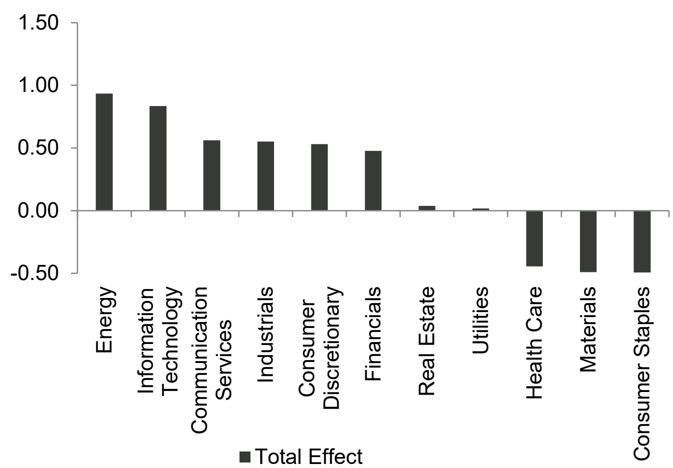
Our strong run of stock selection within information technology continued in the second quarter. **Accenture** rebounded from its March lows when shares were down in-line with the market. We believe management's guidance of 3% to 6% revenue growth for the year should be attainable. Additionally, coming out of the crisis, Accenture may actually find further opportunities as company IT systems are stress tested and found inadequate.

Adyen outperformed as investors have begun to appreciate more fully its secular growth opportunities in payments. Adyen benefits from a strong tailwind in e-commerce payment growth, is the only payment acquirer capable of providing global support with a simple, one-step integration process, and has an attractive merchant portfolio that includes the world's largest tech companies. The company reported strong first quarter transaction and revenue growth, both exceeding 30%. Its run rate has declined due to exposure to travel-related companies, including airlines and online travel agencies. However, the highly-publicized fraud at competitor Wirecard could also lead to market share gains.

Attribution

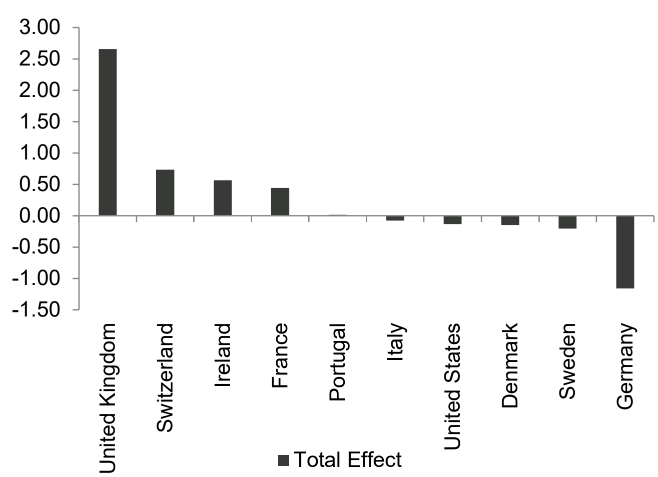
Sector

Vontobel Fund – European Equity vs. MSCI Europe Index



Country

Vontobel Fund – European Equity vs. MSCI Europe Index



Source: FactSet, MSCI
Attributions for the quarter ending June 30, 2020.
Based on cumulative gross performance (euros) of the Vontobel Fund – European 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.
Country attribution based on top 5 / bottom 5 countries by total effect.
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.

Performance in communications services was driven by **Cellnex**, the largest independent tower company in Europe. Telecom companies in Europe have been selling their towers to the likes of Cellnex in order to fund investment in areas such as 5G. Cellnex's pure focus on towers gives it a predictable business with long-term contracts of 20 years, growth in tower capacity, inflation-linked price adjustments and a moderate increase in tenants per tower. The company posted in-line earnings during the quarter and states that organic growth has not been impacted by COVID-19, prompting a re-rating of its shares.

In consumer discretionary, **Flutter Entertainment**, a leading international online gambling company, posted strong gains during the quarter. With live sports temporarily halted due to COVID-19, Flutter shares fell in March, reflecting concerns about the impact and resulting uncertainty for near-term earnings. During the second quarter, however, Flutter reported increased activity in gaming (mainly poker), showcasing the diversity of the platform. With legalized sports gambling slowly rolling out across the US, and sports beginning to restart, we believe Flutter is well-placed to take advantage of pent-up demand in the short term, while also benefiting from structural growth drivers and its strong competitive position in the long term.

In materials, overall performance was impacted on a relative basis by our underweight to the sector. Companies, especially in the mining industry, are more levered to economic growth and rebounded strongly during the quarter as investors wagered the worst of the pandemic's economic toll is behind us. Not having any exposure to these more cyclical businesses was a headwind.

Our overweight to and stock selection within consumer staples detracted from returns. **Philip Morris,** a leading manufacturer of cigarettes, tobacco and nicotine products reported good numbers for the first quarter with some help from buying before lockdowns, but removed guidance for the year and lowered guidance for the second quarter, due to slowing travel retail. In addition, its new heat not burn product IQOS is having a difficult time winning new users during lockdown, while Indonesia delayed minimum prices for cigarettes because of COVID-19. Ultimately, we believe none of this changes the longer-term earnings power of the company or our position in the stock. Our investment in **Unilever** had a solid absolute return though lagged the sector. Unilever is one of the world's largest fast moving consumer goods companies. Unilever pulled full-year guidance due to uncertainty stemming from the pandemic, which disrupted some areas like restaurant food supply. Our long-term thesis remains intact and coming out of the crisis we believe it should fare better than many other consumer companies. Unilever's strong brands give it pricing power and it is a cash converter. Long-term, we believe Unilever will benefit from a growing middle class, urbanization, and tailwind of demand, primarily in emerging markets, for goods serving basic needs.

Lastly, health care was a detractor due to exposure to **Grifols** and **Medtronic**. Grifols, a Spanish multinational pharmaceutical company, reported first quarter results in mid-May. The top-line came in above consensus but operating profit was slightly below expectations, which caused downward pressure on the share price. The company, which specializes in blood plasma treatments and vaccines and operates in a global oligopoly with Baxter International and CSL, continues to see strong growth from its bioscience division. It has enough inventory on hand to manage through a slowdown in plasma collection due to COVID-19 in the near term. However, Grifols did indicate it would take an additional upfront inventory adjustment cost for the upcoming quarter in June.

Medtronic, a US-listed/Irish-domiciled global leader in medical device technology, released quarterly results in which it reported that sales and profits have been negatively impacted by the meaningful slowdown in elective surgeries due to COVID-19. The company's product range includes pacemakers, monitoring devices, coronary and peripheral stents, transcatheter valve replacement products, as well as a strong device offering for Diabetes patients. Medtronic suspended guidance for the fiscal year but also noted trends have been improving across the globe as regions normalize. Medtronic alluded to its strong cash position and access to credit revolvers to help manage through the challenging period, and raised its dividend payout.

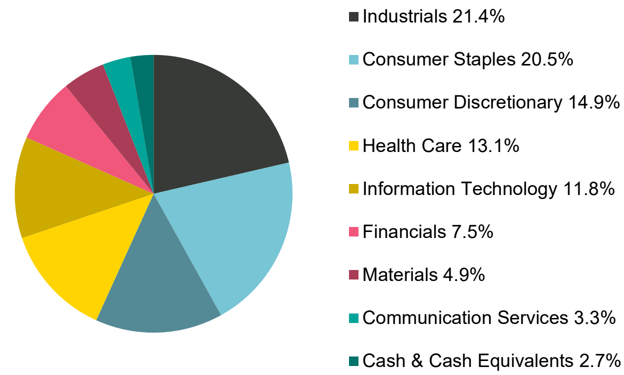
Portfolio Changes[1]

In consumer discretionary, we purchased Germany's **CTS Eventim**, the leading ticketing and live entertainment service provider in Europe with access to nearly all European regional markets, and a number one or number two market share in more than 20 of those. In our view, the company has a strong track record of organic growth and accretive acquisitions, significant moats protecting market share, and a strong underlying growth trend which should drive returns once the market normalizes. Over the past decade, CTS Eventim has exemplified its dominance in the European market with mid-double-digit CAGRs in ticket volumes, revenue and EPS. COVID-19 will hurt demand for its offerings, but provided us an opportunity to invest at, what we felt was a better price. It should also exit lockdowns in a strong position as it has low debt maturity risk and faces small regional rival operators struggling to stay afloat. This should provide CTS Eventim an opportunity to consolidate markets in both Europe and possibly the US.

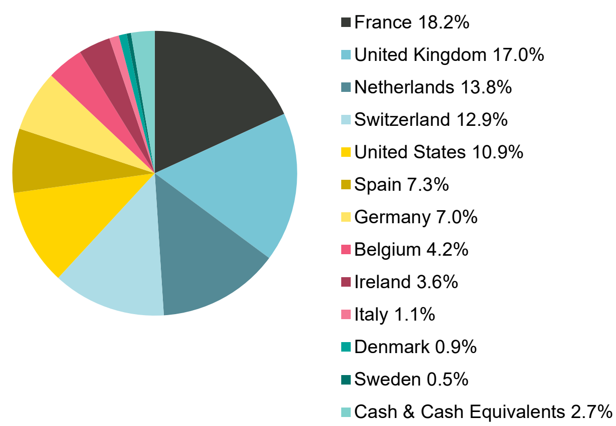
We exited our positions in Spanish consumer discretionary company **Industria de Diseno Textil (Inditex**) to reallocate to better opportunties and Swiss financials group **Pargesa Holding,** which was merged into **GBL SA**.

Allocation

Sector



Country



Sector and country allocations are as of June 30, 2020 and based on the Vontobel Fund – European Equity.
[1] Purchases provided are the new purchases with positions greater than 50 basis points in the Vontobel Fund – European Equity for the period. Sells provided are all names that were fully liquidated in the Vontobel Fund – European 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
Nestle S.A.	Consumer Staples	Switzerland	5.4
Unilever NV	Consumer Staples	Netherlands	4.5
Accenture plc	Information Technology	United States	4.2
SAP SE	Information Technology	Germany	4.2
London Stock Exchange Group plc	Financials	United Kingdom	3.6
Cellnex Telecom SA	Communication Services	Spain	3.3
Teleperformance SA	Industrials	France	3.2
Alcon, Inc.	Health Care	Switzerland	2.9
Medtronic Public Limited Company	Health Care	United States	2.9
RELX PLC	Industrials	United Kingdom	2.9
Total			**37.1**

Characteristics

	VONTOBEL EUROPEAN[1]	MSCI EUROPE
Market Capitalization (€ bn), weighted average	66.5	69.5
P/E - Forecast 12-month, weighted harmonic average	25.8	17.4
Dividend Yield (%)	1.7	3.4
5 Yr Historical EPS Growth (%)	10.0	7.6
Return on Equity, weighted average (%)	20.8	16.1

Risk Statistics (5 Year)

	VONTOBEL EUROPEAN[2]	MSCI EUROPE
Annualized Alpha	2.6	–
Beta	0.8	1.0
Sharpe Ratio	0.2	0.0
Annualized Standard Deviation	12.7	14.1

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

	SECTOR	AVERAGE WEIGHT (%)	CONTRIBUTION TO RETURN (%)
Accenture plc	Information Technology	3.93	1.09
Cellnex Telecom SA	Communication Services	3.06	0.91
Flutter Entertainment Plc	Consumer Discretionary	2.34	0.85
SAP SE	Information Technology	3.91	0.82
Ashtead Group plc	Industrials	1.90	0.81

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

	SECTOR	AVERAGE WEIGHT (%)	CONTRIBUTION TO RETURN (%)
Grifols, S.A.	Health Care	3.15	-0.29
CTS Eventim AG & Co. KGaA	Consumer Discretionary	0.21	-0.13
Philip Morris International Inc.	Consumer Staples	2.67	-0.09
Industria de Diseno Textil, S.A.	Consumer Discretionary	0.05	-0.04
Brunello Cucinelli S.p.A.	Consumer Discretionary	0.20	-0.01

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

	SECTOR	AVERAGE WEIGHT (%)	CONTRIBUTION TO RETURN (%)
Cellnex Telecom SA	Communication Services	2.00	1.31
London Stock Exchange Group plc	Financials	3.30	1.26
Flutter Entertainment Plc	Consumer Discretionary	1.99	1.16
Accenture plc	Information Technology	3.88	0.87
Adyen NV	Information Technology	0.35	0.80

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

	SECTOR	AVERAGE WEIGHT (%)	CONTRIBUTION TO RETURN (%)
Safran SA	Industrials	2.61	-1.40
Anheuser-Busch InBev SA/NV	Consumer Staples	2.55	-1.18
Amadeus IT Group SA	Information Technology	1.56	-0.80
Booking Holdings Inc.	Consumer Discretionary	2.85	-0.78
VINCI SA	Industrials	2.62	-0.56

Portfolio data as of June 30, 2020
Source: FactSet. All returns are expressed in euros.
[1] Based on the Vontobel Fund – European 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. Characteristics are denominated in euros. 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 (euros) of the Vontobel Fund – European 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 isn't 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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