Monthly commentary / 31.01.2020
Vontobel Asset Management

Vontobel Fund - Global Equity X

Approved for institutional investors in: AT, CH, DE, ES, FI, FR, GB, LU, NL, NO, PT, SE, SG (Professional Investors only)

Market developments
Global equities started the year brightly, with US and Europe indices driving upwards to new record levels. However, concerns started to creep into markets. Most significant was the escalation of the coronavirus, which broke out in Wuhan, China. Emerging markets stocks started to slide, with the MSCI Emerging Markets Index finishing the month 4.66% lower. Developed markets followed as investors struggled to price in the effects of the virus on global consumption, as well as companies and supply chains. US worries also began to weigh on markets, with the coming Presidential election adding to concerns. In Europe, Brexit day and weak fourth quarter 2019 GDP performance in the Eurozone depressed shares.

Portfolio review
PURCHASES:

LVMH MOET HENNESSY LOUIS VUITTON SE EUR0.30 - LVMH Moet Hennessy Louis Vuitton engages in the manufacture of luxury goods. We believe the Louis Vuitton (LV) brand, which is nearly 50% of EBIT, still has good pricing power and has continued to invest in new products to get better pricing, as evidenced by its operating margins which have continued to remain at mid 40% levels. This more stable growth for LV is supplemented by faster growing brands within the portfolio including Fendi in Fashion and Leather, Sephora in selective retail, and Bvlgari in jewelry. We think that the Tiffany acquisition will be accretive and are confidant management can improve operations as they have shown with Bvlgari.

SALES:

RECKITT BENCK GRP ORD GBP0.10 - We reallocated capital to better opportunities.

Performance analysis
The Consumer Staples and Energy sectors were positive contributors to relative performance over the month. The Consumer Discretionary and Utilities sectors detracted from relative performance. On a country basis, United States and Canada contributed to relative performance, while India and Belgium detracted from performance.

TOP3 Contributors:

MICROSOFT CORP COM

From a fundamental standpoint, there is nothing company-specific to report. Once defined by its reliance on a PC-centric world, Microsoft has successfully transformed into more of a cloud first company. The company has built Azure into a leading public cloud provider, with natural strengths in hybrid cloud and ability to sell to enterprises. In addition, the shift to cloud computing is driving growth in its traditional franchises, as the company is shifting to more of a SaaS (software as a service) model. Under CEO Satya Nadella, we believe MSFT has become a much more open technology company that is now able to go after larger, addressable markets. In our view, MSFT offers an attractive combination of durable franchises and strong earnings growth.

AMAZON COM INC COM

AMZN saw accelerating revenue growth in online sales in North America to over 20% and is benefiting from the investment in one day shipping. The market took that as a positive and also that the investment in one day shipping is expected to decline in coming quarters. Amazon is the leading player in ecommerce in North America, and has leading positions in several markets in Europe, as well as India and Japan. Amazon was able to do this by offering very competitive pricing, free shipping for Prime members, and convenience. Amazon also has the leading position globally in Cloud services with AWS.

MASTERCARD INC CL A

From a fundamental standpoint, there is nothing company-specific to report. Mastercard is a dominant card payment network second only to Visa. Mastercard continues to benefit from strong secular tailwinds (cash-to-card conversion), and enjoys durable competitive moats as an indispensable component of the payment ecosystem. We believe the company can meet its goal of becoming a one-stop shop for all types of payments.

TOP3 Detractors:

ADR HDFC BK LTD ADR REPSTG 3 SHS

From a fundamental standpoint, there is nothing company-specific to report. HDFC Bank is one of the leading private sector bank in India and a core holding of ours. HDFC Bank is a high-quality Indian private sector bank which has been a cornerstone investment in the portfolio for many years. The bank has delivered solid growth while maintaining high credit and underwriting standards. HDFC Bank has a strong deposit franchise and powerful technology backbone that should allow it to grow at a slightly faster rate than the industry.

UNITEDHEALTH GROUP INC COM

From a fundamental standpoint, there is nothing company-specific to report. UnitedHealth Group, established in 1977, is a diversified health care company based in Minnesota. It operates through two distinct platforms: UnitedHealthcare, which provides health care coverage and benefits services; and Optum, which provides information and technology-enabled health services.

ROYAL CARIBBEAN CRUISES COM STK

RCL’s stock price was hit because of concerns around the impact on cruising from the Coronavirus. While China sailings for February have been cancelled there is also some negative sentiment relating to some cruises (non RCL) that have been stranded as a result of some infected passengers. Ultimately we expect this to pass. Royal Caribbean Cruises (RCL) is the world's second largest cruise company with 44 ships, a passenger capacity of approximately 94,000 and 25% global share of the cruise market. We like the industry structure as it is quite consolidated with the top three players holding a 79% market share. Demand growth has been strong because the cruising industry is under-penetrated. We believe this provides a good backdrop for solid yield/pricing growth over the coming five years. RCL has displayed a solid record in managing costs, which should result in continuing margin expansion and ROIC improvement and we expect that to drive mid-teens earnings growth with potential for further buybacks.

Outlook

Unforeseen events can rattle markets and create volatility. While individual stocks and sectors can suffer disproportionately when sentiment changes, we remain focused on high quality growth companies that can benefit from long-term secular trends, competitive advantages, strong managements and that are attractively priced. Further, our bottom-up analysis enables us to find businesses that have the resilience to withstand short-term volatility, as well as longer-term downward shifts.

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