Vontobel

Act ESG

Vontobel Asset Management

Emerging markets: no ESG, no fun

Why active management combined with a sustainable approach can open up new horizons

Approved for institutional investors in:
AT, CH, DE, ES, FI, FR, GB, IT, LI, LU, NL, NO, PT, SE, SG (professional investors only)/
For institutional investors only / not for public viewing or distribution / September 2019

Increasing emerging-market exposure with a keen eye on ESG[1]
As active asset managers with strategic and tactical views on multi asset portfolios, we often get questions regarding the "right" weighting of emerging markets. We believe a level of up to 20% is appropriate provided you manage these assets in a sustainable manner (see figure 16 on page 14). Multiple third-party studies confirm that ESG-compliant investing reduces risks and improves returns, particularly for emerging markets. We consider emerging-market equities and hard-currency bonds strategic investments, alongside more traditional benchmark components such as developed-market equities and bonds as well as cash. Emerging-market bonds in local currency are more of a tactical play but can be particularly attractive when employed at the right time. To engage in the latter segment, you also need to anticipate a strengthening of emerging-market currencies against the US dollar. If you still harbor doubts about emerging markets, consider the broad downward move in central banks' benchmark rates, and the frozen-solid yields of many long-maturity government bonds in Europe. Therefore, if you're thinking about getting more active in emerging markets – ESGellent, you've come to the right place.

[1] ESG investing, also called socially responsible investing (SRI), comprises approaches such as integration, best in class, impact investing, and exclusion that reflect investors' biases towards values or financial performance. Also see ***"Navigating ESG, a guide to finding the right ESG investment"***, Vontobel Asset Management, March 2019.

Editorial

Both China and India have launched space programs. But you don't need to venture far to realize they have come a long way. Chinese smartphones and Indian information technology are just two examples of emerging-market goods and services with truly global demand and global benefits. Today, fancy gadgets are as likely to come from Shenzhen, China's Silicon Valley equivalent, as from the futuristic circular building in Cupertino, California.

However, there is a dark side to the success story. The rise of emerging markets is eerily reminiscent of our own industrialization-era neglect of environmental and social issues. It continues to raise difficult questions. Are we ready to look aside if some emerging economies lack what we consider business basics such as free markets or an independent judiciary? Do we waver if George Orwell's gloomy visions seem to be coming true here and there? Then again, western complaints about the backwardness of such countries sometimes ring hollow. Closer to home, there are politicians thinking about sidestepping parliament or second-guessing central banks.

Asset managers focus on investing and rarely engage in soul-searching. Still, we should care about where, how, and why we invest. We can draw on our experience on how to manage risks in emerging markets, and we can think about ways of putting our money where our mouth is. One possibility is holding the companies in our portfolios to environmental, social, and governance standards. Naturally, there are risks involved, but keeping them in check thanks to a sustainable approach is part of the excitement that active management can provide. Therefore, let this be our rallying cry: "Emerging markets – no ESG, no fun."

Frank Häusler
Chief Strategist Vontobel

Old-world portfolios ignore new-world power

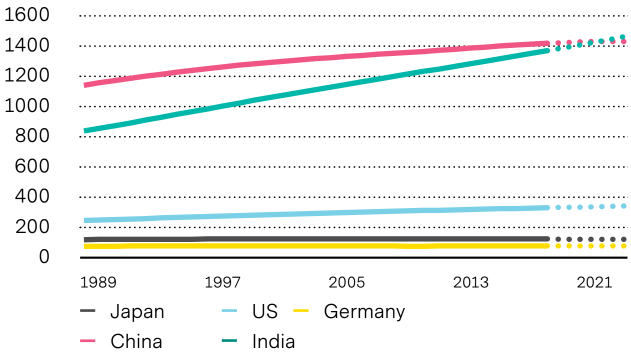
Economists' forecasts are rarely accurate, but the margin of error is smaller for projections of population growth. As one of the leaders in this category, India will soon become the world's most populous nation. China will remain a heavyweight despite the overall growth rate levelling off (see figure 1).

These two countries with their expanding middle class are good proxies for all emerging economies. Conversely, the contribution of industrialized countries to the global economy will decrease without them necessarily becoming "submerging markets" (see figure 2).

The composition of financial markets will change accordingly. Over the past few years, Chinese shares have found their way into some western portfolios, and equities from other emerging markets will follow. Yet old-world portfolios still hardly reflect this new-world power (see figure 3).

Figure 1: India to pip China to the post in terms of population size

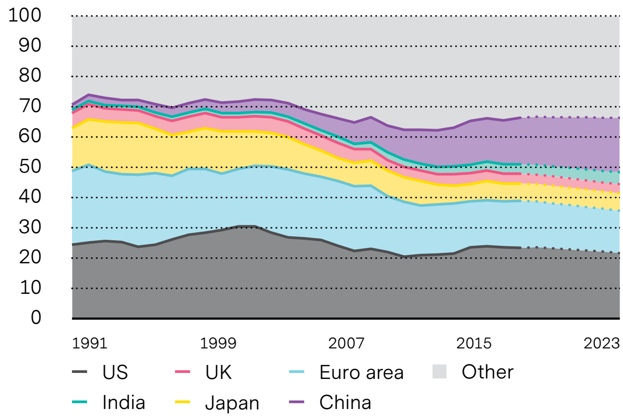
In millions



Source: United Nations, US Census Bureau, Vontobel

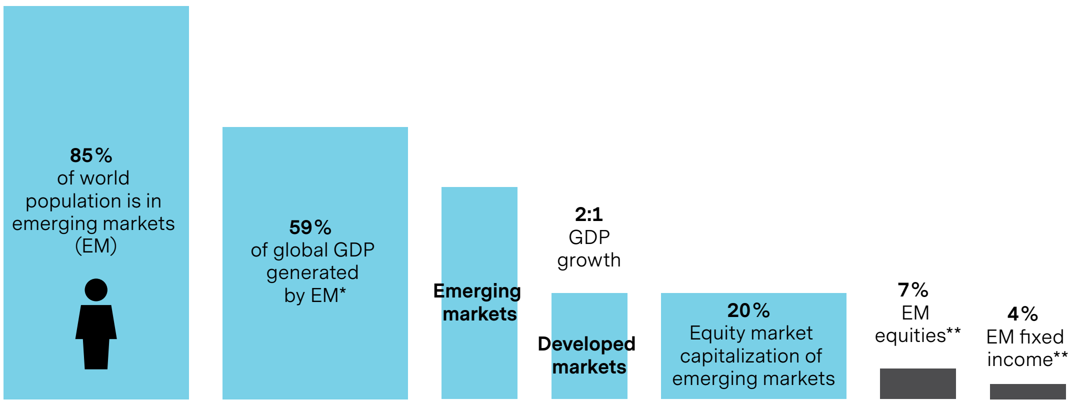
Figure 2: Industrialized countries losing their commanding economic position

Shares of world GDP, in % (based on current US dollar value)



Source: International Monetary Fund, Thomson Reuters Datastream, Vontobel

Figure 3: Investors mostly neglect emerging-market equities and bonds



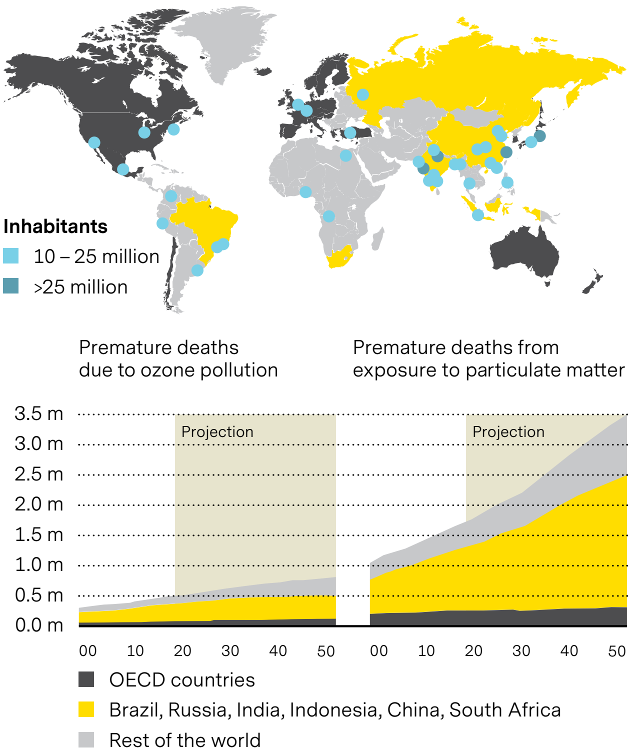
* Adjusted for purchasing power parity, as per end of 2018
** Vontobel 2018 investment conference attendees' average (arithmetic) allocation to emerging markets
Source: International Monetary Fund, Thomson Reuters Datastream, Vontobel

The polluted sky is the limit

"To get rich is glorious", a quote sometimes attributed to former Chinese leader Deng Xiaoping,[2] sums up China's precipitous transformation from an agrarian state to the world's second-biggest economy within a few decades. This entailed finding a middle way between Soviet-style economic planning and a free market economy, and imposing a rigorous one-child policy. The successive economic rise of China, and other emerging economies, lifted millions of people out of poverty, but it came at a heavy cost, as visitors to smog-ridden megacities such as New Delhi or Beijing know (see figure 4).

Figure 4: Growing megacities raise environmental and social questions

Megacities of 2025

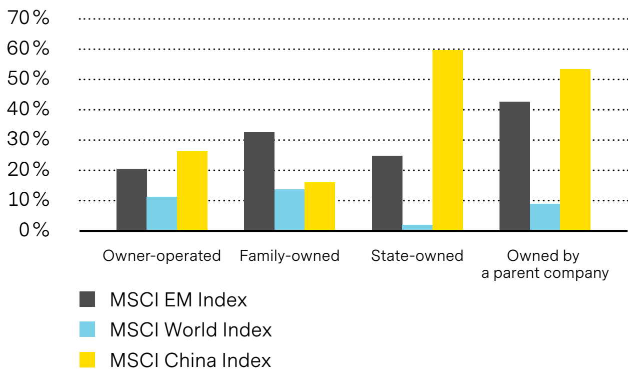


Source: MSCI ESG Research, "Navigating ESG risk: A geographic lens for assessing companies", April 2017, and "Corporate Governance in China", September 2017

The western world used to have the same problems. London's chimneys hark back to coal-burning times that ended abruptly with the Clean Air Act in 1956. We are also no strangers to social strife in our big cities, but such problems mostly turned out to be manageable. In this respect, at least, industrialized countries seem to be better off than some emerging ones.

The financial industry has come a long way, too. Not long ago, asset managers bothered little whether their investments met certain environmental, social, and governance (ESG) standards. Today, few can afford not to deal with such issues, not just due to rising client demand. Picking one or several sustainable investing approaches for developed markets sometimes is hard enough, and trickier still for emerging markets owing to often-inadequate data. However, as we are active managers, people expect us to take a closer look – and it's worth it. Juxtaposing the ownership structure of companies in developed and emerging markets, for instance, reveals potential governance problems for the latter category (see figure 5).

Figure 5: High share of state-owned companies increases governance risks



Source: MSCI ESG Research, "Navigating ESG risk: A geographic lens for assessing companies", April 2017, and "Corporate Governance in China", September 2017

[2] Morrissey, D., "Managing the Wealth of Nations: What China and America May Have to Teach Each Other About Corporate Governance", Spokane, Wa., U.S., Gonzaga University Law School, Volume 68, issue 3 2015

Emerging markets' hidden values

Do you as an investor feel comfortable with shifting a significant part of your assets into emerging-market securities? Apparently not, if we consider anecdotal evidence from a Vontobel investment conference in 2018 (see right-hand columns in figure 3 on page 4). The reasons are as much rooted in psychology – cognitive bias, i.e. people like what they know – as in risk/return considerations. The basic dilemma is that emerging markets' prospects of financial gains are marred by their boom-and-bust cycles.

Let's look at the "emerging versus developed" question from a different angle. Do you think that investing close to home is a safer bet? In fact, if we compare the pros and cons of equities in both regions, much speaks in favor of emerging economies. Here, the single most important player holds less sway over the market with China only accounting for 30%, while in the west, the US reigns supreme with double that rate. At the same time, emerging markets are more accident-prone. Their peak-to-trough losses have been much larger than those in the industrialized world, and particularly compared with Europe where business models are often defensive (see figure 6).

The picture is similar for fixed income where the emerging-market segment is more diversified than its developed-market counterpart. Moreover, hard-currency emerging-market paper is nearly as attractive as the global benchmark[3] in terms of duration and the historical Sharpe ratio[4] (see figure 7).

By contrast, the rationale for investing in the local-currency emerging-market bond segment looks less compelling. To engage in this part of the market, investors need to factor in a weakening of the US dollar and, conversely, a strengthening of a basket of emerging-market currencies against the greenback.

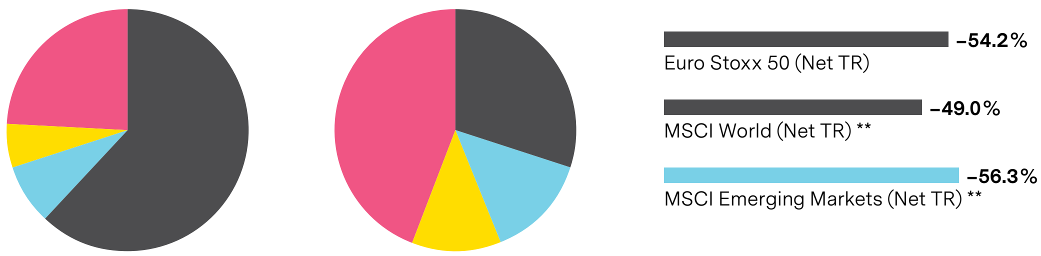
This would matter little in normal times, except ours clearly aren't. Central bankers no longer dare utter "normalization" after recently throwing overboard the policy tightening they championed in 2018. They have instead opened the liquidity floodgates again to shield the economy against the fallout of the US-Chinese trade conflict and a slowdown of global growth. In an environment where investors are clinging on to what returns there are left, emerging markets are likely to play a more prominent role. Figure 8 gives an overview of the pockets of higher yield we believe will be available over the next seven years.

Figure 6: Emerging-market equities: better regional mix, but more accident-prone

Developed markets
Concentration

Emerging markets
Concentration

Difference between peak and trough over a certain period
(maximum drawdown*)



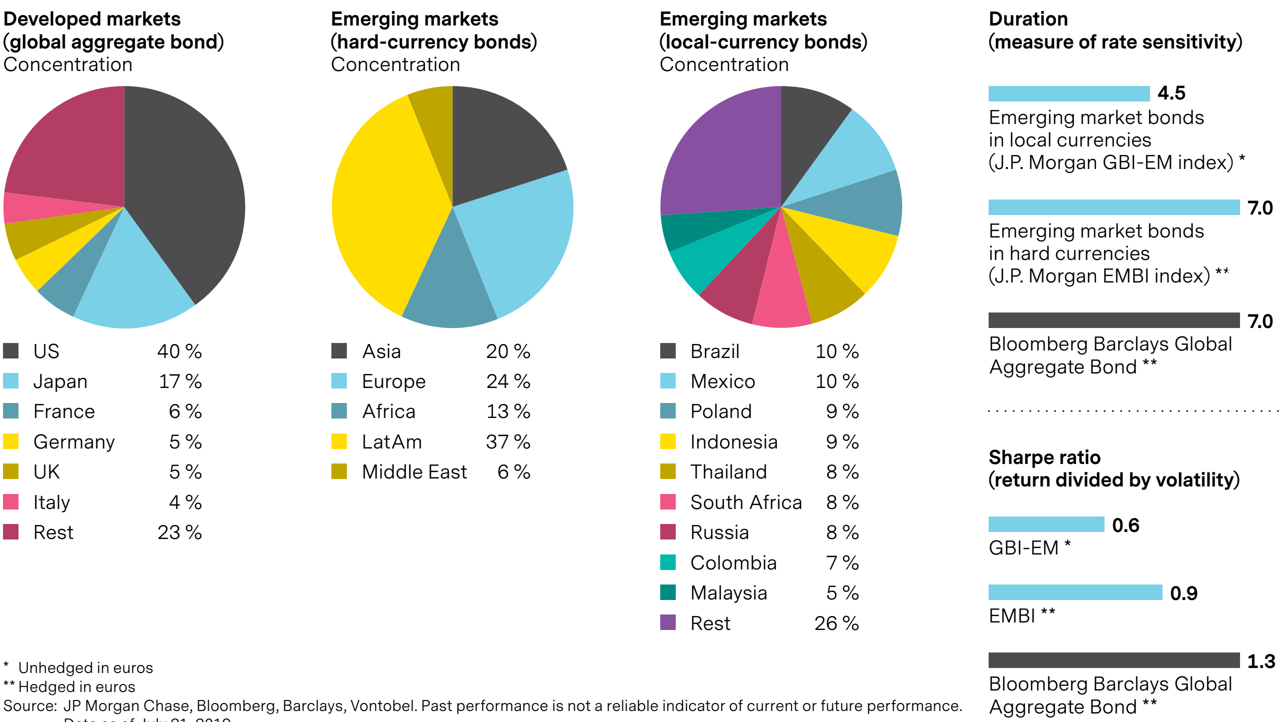
US	62%
Japan	8%
UK	6%
Rest	24%

China	30 %
South Korea	14 %
Taiwan	12 %
Rest	44 %

* Difference between peak and trough over a certain period
** Unhedged in euros
Source: STOXX, MSCI, Vontobel. Past performance is not a reliable indicator of current or future performance. Data as of July 31, 2019.

[3] The Bloomberg Barclays Global Aggregate Bond
[4] The Sharpe ratio measures the reward for taking risk. It is a measure of portfolio performance minus a risk-free rate divided by a "standard error" number (standard deviation) for the portfolio's excess return. The higher the ratio, the greater the benefit for investors.

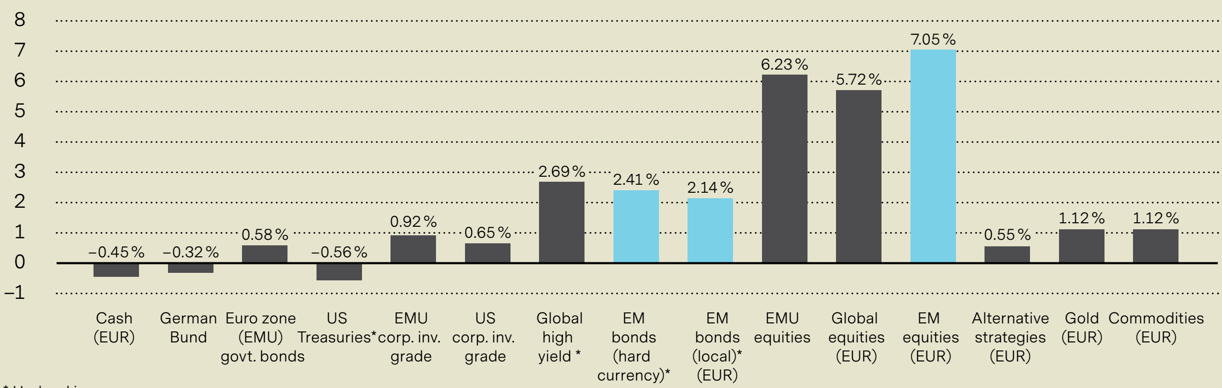
Figure 7: Emerging-market bonds diversified, but some with currency issues



* Unhedged in euros
** Hedged in euros
Source: JP Morgan Chase, Bloomberg, Barclays, Vontobel. Past performance is not a reliable indicator of current or future performance. Data as of July 31, 2019.

Figure 8: The "point of low return" reached, but there are options

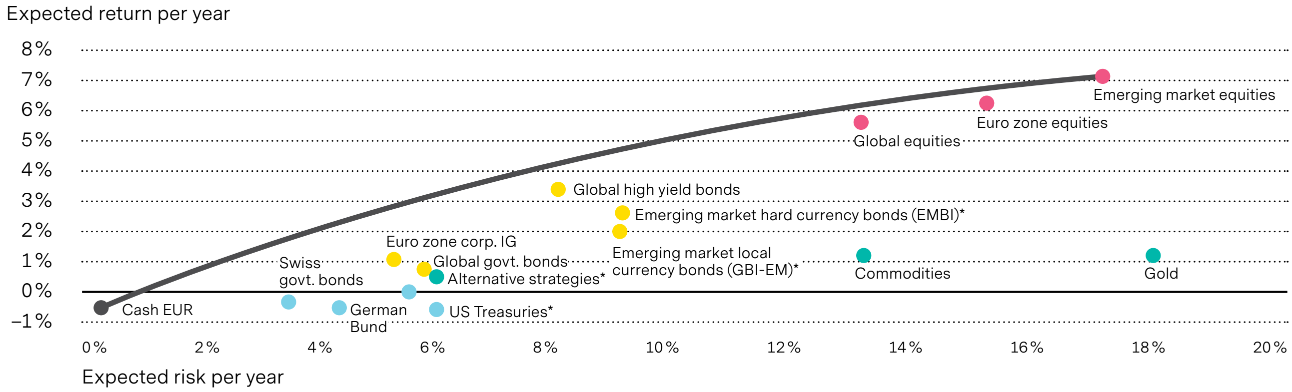
Projections of annual returns over the next seven years



* Hedged in euros
Source: Vontobel. Past performance is not a reliable indicator of current or future performance. Data as of mid-2019.

Plotting these findings on a risk / return chart (see figure 9) leads to the following conclusion: investors looking for the "right" combination of return and risk should consider emerging-market equities and hard-currency bonds alongside traditional benchmark components such as developed-market equities and bonds as well as cash. These segments are what we call strategic investments. European investors in particular, faced with ever-decreasing returns may, at some stage, consider swapping local government bonds for hard-currency emerging-market issues. Emerging-market bonds in local currency are more of a tactical play. Their high yields make them a potentially attractive proposition in certain circumstances, and on the condition that the US dollar will depreciate versus emerging-market currencies.

Figure 9: Emerging-market equities and hard-currency bonds among strategic investments



* Hedged in euros
Source: Vontobel. Past performance is not a reliable indicator of current or future performance. Data as of mid-2019.

Puncture emerging-market illusions actively

Let's take a step back at this point to make a case for active management in general. Investing passively in emerging-market exchange-traded funds (ETFs) is like trusting a randomly selected bunch of test pilots to reach the Moon. Some of them may actually turn out to be excellent astronauts but others may endanger the whole mission. The risk of one key crew member spreading germs around – or one heavyweight (mining etc.) stock pulling the whole index down – is large. Perhaps too large for some to consider.

True, passive strategies via ETFs based on various indices cost less and can pay off. Warren Buffett, one of the most successful investors of our time, suggested as much.[5] Strangely, the advice to "go cheap and passive" came from someone who made his fortune through targeted investments. It could just as well have been the kind of tongue-in-cheek remark so liked by Mr. Buffett and his partner Charles Munger.

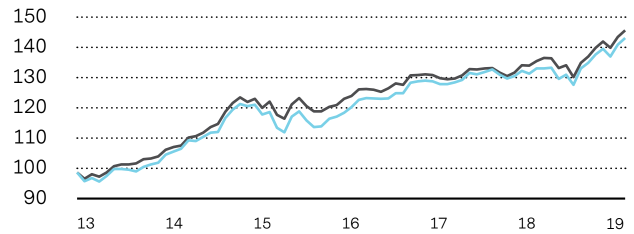
Active it shall be, then, and we will try to demonstrate the utility of this approach using our own strategies.[6] At the same time, we will put on a passive investor's hat and back-test how an index-based emerging-market portfolio would have done versus a traditional 60 % bonds / 40 % equity pension fund portfolio from 2013 through mid-2019. The results of our research speak in favor of the active approach (see figure 10).

Figure 10: Active beats passive while the risk is similar

Passive implementation*

Annualized return	3.73 %
Volatility	5.31 %
Maximum drawdown	–7.30 %

Index (May 31, 2013 = 100)

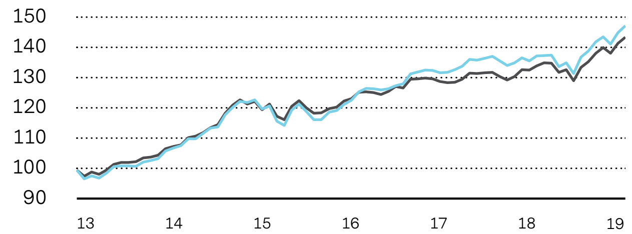


— 60/40 Portfolio (60 % Bonds Global Aggregate EUR hedged, 40 % MSCI World EUR unhedged)
— Balanced Portfolio (80 % 60 / 40 Portfolio, 10 % EM equity EUR unhedged, 5 % GBI-EM EUR unhedged, 5 % EMBI EUR hedged)

Active implementation**

Annualized return	4.17 %
Volatility	5.30 %
Maximum drawdown	–6.85 %

Index (May 31, 2013 = 100)



— 60/40 Portfolio (60 % Bonds Global Aggregate EUR hedged, 40 % MSCI World EUR unhedged)
— Balanced Portfolio (80 % 60 / 40 Portfolio, 10 % VT mtx Sustainable Emerging Markets Leaders EUR unhedged, 10 % VT Emerging Markets Debt EUR hedged)

* Monthly rebalancing, no transaction costs or management fees
** Monthly rebalancing, net of management fees
Source: Bloomberg, Vontobel. Past performance is not a reliable indicator of current or future performance. Data as of July 31, 2019.

[5] "Warren Buffett tells wife: go cheap and passive", The Financial Times, March 7, 2014
[6] Vontobel Fund – mtx Sustainable Emerging Markets Leaders and Vontobel Fund - Emerging Markets Debt. Please note there are many more Vontobel funds available that fall in the emerging markets category, such as the Vontobel Fund - Emerging Markets Equity. The full list of emerging-market funds can be found here: https://am.vontobel.com/en/emerging-markets

Therefore, a passive implementation at zero cost didn't add any value. Moreover, our research shows that if you go passive, you might as well forget about the additional benefits that emerging markets should be able to offer (see figure 11). By contrast, the more expensive active approach leads to much better results with similar risk, after deducting all transaction and management fees.

Why do emerging markets lend themselves particularly well to an active investment approach? The short answer is because they are naturally more risky, but potentially more rewarding than developed markets. Neil Armstrong and Buzz Aldrin in 1969 switched to manual flight mode when their autopilot guided them to a boulder-strewn place on the Moon, and it proved to be the right move. We believe that by going active, emerging-market investors can avoid potential pitfalls such as markets suddenly turning illiquid, or exploit the opportunities. These include the much higher differences in emerging-market share price performance relative to that of developed-market equities (see figure 12).

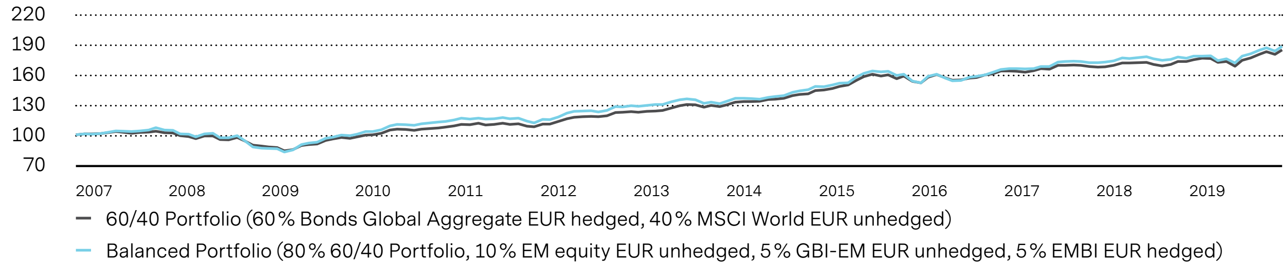
Figure 12: Going active helps mitigate risks and spot opportunities

	DEVELOPED MARKETS	EMERGING MARKETS
Illiquid markets or becoming illiquid in stress periods	Occasionally	Often
Asset class components exhibit return dispersion	Yes, small	Yes, large
Analyst coverage of the underlying securities	High	Low
Behavioral biases	Limited	High
Regulatory and governance issues affecting ownership and returns	Limited	High

Source: Factset, Vontobel

Figure 11: Going passive in emerging markets means forgoing benefits

Index (December 29, 2006 = 100)



2007 → **2019**

	10-YEAR RETURNS	10-YEAR VOLATILITY	SHARPE RATIO*	MAX. DRAWDOWN	EXPECTED RETURN**	EXPECTED VOLATILITY**
Classic 60 % / 40 % portfolio, no emerging market investment	7.10 %	4.46 %	1.59	–19.09 %	2.44 %	8.24 %
Balanced portfolio, includes emerging market investments	7.08 %	5.10 %	1.39	–22.63 %	2.88 %	8.98 %

Passive implementation, monthly rebalancing, no transaction costs
* Sharpe ratio: Return dividend by volatility (standard deviation)
** Seven-year forward expectations, annualized
Source: Bloomberg, Vontobel. Past performance is not a reliable indicator of current or future performance. Data as of July 31, 2019.

Get a sustainable handle on emerging risks

With the link between an active approach and emerging markets now established, why do we need ESG as an additional ingredient? Because this can reduce the environmental, social, and governance risks that developing economies face. And perhaps more importantly, because investing in a sustainable manner pays off in the long run. Investors have realized that avoiding bad companies reduces the higher drawdown risk that comes with emerging-market investments.

Figure 13 shows that emerging markets, and by extension, the respective companies, are more at risk from environmental, social, and governance shortcomings than their developed-market counterparts. Figure 14 sums up the performance of several Asian companies hit by an ESG-related disaster over the past decade. It shows that their stock prices tanked following a major adverse event and that the shares continued to trade at a discount for a long time. This same holds true for emerging-market fixed income. Bonds by issuers headquartered or mainly active in emerging economies also quickly lose value if the company causes large-scale environmental damage, for example.

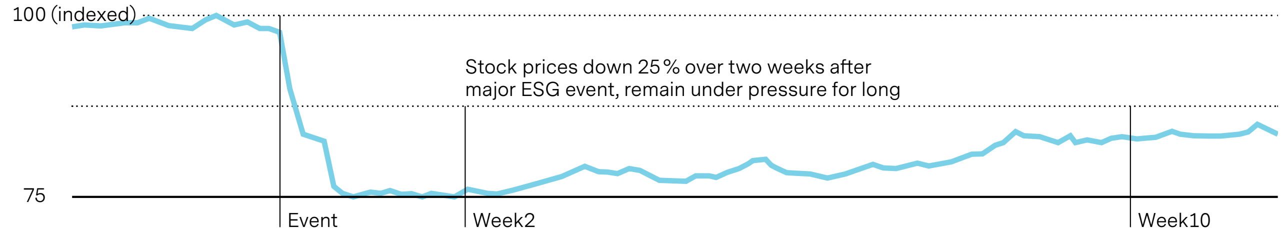
Figure 13: Up-and-coming economies are "sustainably challenged"

	DEVELOPED MARKETS	EMERGING MARKETS
Fragile ecosystem		■
Water scarcity		■
Climate vulnerability *	■	
CO_2 regulation		■
Chemical industry regulation		■
Risks to privacy		■
Strikes		■
Job security		■
Corruption		■

■ Slightly or significantly more exposed to a particular risks than the other region

* Physical impact on companies stemming from floods, droughts etc. Around 44 % of developed markets face such risks versus 40 % of emerging markets.
Source: MSCI ESG Research, "Navigating ESG risk: A geographic lens for assessing companies", April 2017, and "Corporate Governance in China", September 2017

Figure 14: Emerging market companies suffer if ESG disaster strikes



Average performance of selected Asian companies relative to the sector following 14 major adverse ESG events between 2007 and January 2017
Source: Goldman Sachs Equity Research, "Asian Corporate Governance", GS Sustain 2017a, April 2017

To be fair, western companies also suffer from environmental and governance scandals such as "Dieselgate" or the Deepwater Horizon oil spill. However, considering figure 13 on page 12, such events should occur less frequently in industrialized countries.

Not so long ago, many investors doubted the link between sustainable investing and the possibility of better performance. It is only since the turn of the millennium that solid research showed there is a connection indeed. In 2015, an extensive meta study of over 2,000 academic publications on the effect of incorporating ESG factors into investments found strong evidence that ESG improves the risk/return profile of investments, particularly in emerging markets (see figure 15 on page 14).

Free rein to unconstrained

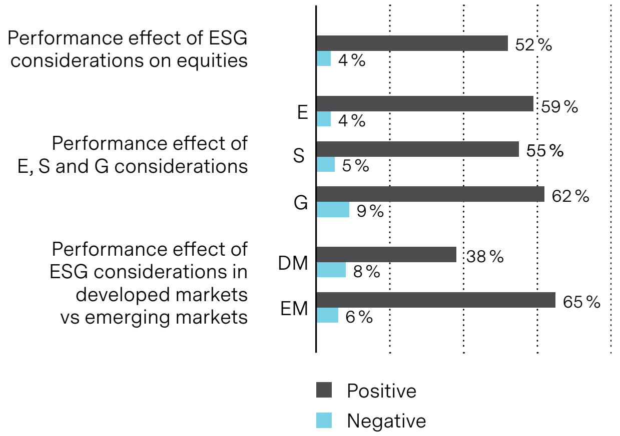
For our own research into this topic, we split the investments universe into components that meet, or fail to meet, ESG criteria. Similar to the meta-study results, we found that a sustainable approach matters more in emerging markets than in developed markets. A more detailed view summarized in figure 16 also shows that a sustainable approach in emerging markets works especially well in unconstrained[7] portfolios.

1. ESG-compliant investing improves returns and reduces risks in emerging markets, regardless of whether the analysis is grounded in a sector-neutral or an unconstrained view. This is evident from the higher return/risk ratios (Sharpe ratios) in the respective ESG columns of figure 16 compared with non-ESG data. Generally, unconstrained portfolios show better results because active sector weights are important in the context of sustainability investing.

2. Since the end of 2010, an unconstrained emerging-market portfolio in line with ESG principles outperformed non-ESG investments by 4.1 percentage points. This supports the basic assumption of active managers that unfettered access to a wide range of asset classes and sectors, and the subsequent process of focusing on the most promising ones, offers the greatest benefits. Unconstrained investing enables portfolio managers to exclude sectors or securities that don't qualify from an ESG point of view or those that should be underweighted structurally (see figure 16 on page 14).

[7] An investing style not bound by benchmark considerations regarding sector weights

Figure 15: Investing in a sustainable manner pays off



Source: Friede, G., Busch, T., and Bassen, A., "ESG and financial performance: aggregated evidence from more than 2,000 empirical studies", December 2015

Figure 16: ESG approach boosts returns and lowers risks in emerging markets

Performance and volatility data December 2010 – December 2018, annual returns

SECTOR NEUTRAL *	MSCI WORLD INDEX			MSCI EMERGING MARKETS INDEX		
	Return	Volatility	Return/risk	Return	Volatility	Return/risk
ESG-compliant investing	8.1 %	10.3 %	0.79	6.8 %	10.5 %	0.65
Non-ESG investments	8.5 %	11.1 %	0.76	2.9 %	12.2 %	0.24
Performance ESG vs. non-ESG	**–0.4 percentage points**			**3.9 percentage points**		

UNCONSTRAINED **	MSCI WORLD INDEX			MSCI EMERGING MARKETS INDEX		
	Return	Volatility	Return/risk	Return	Volatility	Return/risk
ESG-compliant investing	9.4 %	10.2 %	0.92	6.9 %	10.0 %	0.69
Non-ESG investments	7.3 %	11.3 %	0.64	2.8 %	12.4 %	0.22
Performance ESG vs. non-ESG	**2.1 percentage points**			**4.1 percentage points**		

* Selection within sector but no active weighting, no disregarding of sectors with inadequate ESG scores
** Sector weights according to Vontobel ESG methodology can differ substantially
Source: Bloomberg, FactSet, Vontobel. We used the investment universes on which the MSCI EM and MSCI World indices are based. Past performance is not a reliable indicator of current or future performance.

An investor's guide to the emerging-market universe

Explorers of an emerging-market universe face two fundamentally different choices. If they are like Michael Collins on the Apollo 11 space flight, they settle for a passive and only half-enjoyable lunar orbit with diminishing returns, secretly regretting the opportunity that has passed them by. If they are like Neil Armstrong and Buzz Aldrin, they actively switch to manual flight mode and get all the fun while closely watching their instruments for any sign of trouble.

A more down-to-earth summary reads as follows:

1. Should you invest in emerging markets? Yes, because they provide attractive long-term returns. We consider emerging-market equity and bonds in hard currency strategic assets. Emerging-market local-currency bonds are more of a tactical play requiring a view that the US dollar will depreciate against a basket of emerging-market currencies.

2. Which investment style should you consider? An active style, because it enables you to spot risks as well as opportunities, and offers outperformance prospects. Moreover, passively implementing emerging-market assets into a balanced portfolio doesn't add value.

3. What can you do to manage the risks? According to our in-house research (see figure 16 on the previous page) and extensive meta studies (see figure 15 on the previous page), investing in line with ESG standards improves return and reduces risk especially in emerging markets.

Lift off with 20% of emerging-market fuel
While we don't advise on which stocks or bonds to pick, we believe a typical pension fund should invest around 20% of its assets in emerging economies to be ready for take-off. Up to this level, the inherent risk should be manageable and the potential reward considerable. What makes us so sure? Our research shows that investing in accordance with ESG principles improves annual returns from emerging markets by 4.1 percentage points in unconstrained portfolios versus an improvement of 2.1 percentage points in global markets. Multiple studies by third parties confirm this view.

Last year's poll at a Vontobel investment conference showed that the attendees' average allocation to emerging-market equities was some 7% and to emerging-market bonds around 4%. Therefore, there is ample room to increase exposure, provided you take sustainable investing to heart – which you should do to manage risk efficiently. If you still have doubts about emerging markets, consider the broad downward move in central banks' benchmark rates across the globe, and the frozen-solid yields of many long-maturity government bonds in Europe. Therefore, are you thinking about being a more active emerging-market investor? ESGellent, prepare for take-off in 10, 9, 8…

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Performance Vontobel Fund – mtx Sustainable Emerging Markets Leaders (data as of August 30, 2019, in %)*

NET RETURNS

USD	FUND	INDEX
MTD	–4.5	–4.9
YTD	9.1	4.2
2018	–15.3	–14.8
3 years p.a.	9.0	5.8
5 years p.a.	7.4	0.4
10 years p.a.	n/a	n/a
Since launch p.a.	5.3	0.7

ROLLING 12-MONTH NET RETURNS

START DATE	END DATE	FUND	INDEX
01.09.2018	30.08.2019	–0.4	–4.4
01.09.2017	31.08.2018	0.5	–0.7
01.09.2016	31.08.2017	29.2	24.5
01.09.2015	31.08.2016	23.7	11.8
01.09.2014	31.08.2015	–10.8	–22.9

Launch Date: 15.07.2011
Index: MSCI Emerging Market TR net
Share class: I
ISIN: LU0571085686

Performance Vontobel Fund – Emerging Markets Debt (data as of August 30, 2019, in %)*

NET RETURNS

USD	FUND	INDEX
MTD	–1.9	0.7
YTD	11.0	13.5
2018	–6.5	–4.3
3 years p.a.	5.6	4.9
5 years p.a.	5.5	5.5
10 years p.a.	n/a	n/a
Since launch p.a.	5.3	5.0

ROLLING 12-MONTH NET RETURNS

START DATE	END DATE	FUND	INDEX
01.09.2018	30.08.2019	11.6	13.8
01.09.2017	31.08.2018	–4.2	–3.4
01.09.2016	31.08.2017	10.2	5.0
01.09.2015	31.08.2016	15.8	14.2
01.09.2014	31.08.2015	–4.0	–1.1

Launch Date: 15.05.2013
Index: J.P. Morgan EMBI Global Diversified
Share class: I
ISIN: LU0926439729

Performance Vontobel Fund – Emerging Markets Equity (data as of August 30, 2019, in %)*

NET RETURNS

USD	FUND	INDEX
MTD	–3.3	–4.9
YTD	10.7	3.9
2018	–14.2	–14.6
3 years p.a.	4.5	5.8
5 years p.a.	1.6	0.4
10 years p.a.	7.6	4.1
Since launch p.a.	5.6	2.9

ROLLING 12-MONTH NET RETURNS

START DATE	END DATE	FUND	INDEX
01.09.2018	30.08.2019	3.9	–4.4
01.09.2017	31.08.2018	–4.9	–0.7
01.09.2016	31.08.2017	15.3	24.5
01.09.2015	31.08.2016	13.5	11.8
01.09.2014	31.08.2015	–16.4	–22.9

Launch Date: 30.03.2007
Index: MSCI Emerging Market TR net
Share class: I
ISIN: LU0278093082

* 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 due to changes in the rates of exchange between currencies.

Risks

- 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.
- Investments in emerging markets may be affected by political developments, currency fluctuations, illiquidity and volatility.
- Investments in foreign currencies are subject to currency fluctuations
- Price fluctuations of investments due to market, industry and issuer linked changes are possible.

Bond-specific risks:
- Interest rates may vary, bonds suffer price declines on rising interest rates.

Equity-specific risks:
- The investment style may lead to more heavily concentrated positions in individual companies or sectors.
- There is no guarantee that all sustainability criteria will always be met for every investment. Negative impact on subfund's performance possible due to pursuing sustainable economic activity rather than a conventional investment policy.

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This document is for information purposes only and does not constitute an offer, solicitation or recommendation to buy or sell shares of the fund/fund units or any investment instruments, to effect any transactions or to conclude any legal act of any kind whatsoever. Subscriptions of shares of the fund should in any event be made solely on the basis of the fund's current sales prospectus (the "Sales Prospectus"), the Key Investor Information Document ("KIID"), its articles of incorporation and the most recent annual and semi-annual report of the fund and after seeking the advice of an independent finance, legal, accounting and tax specialist. This document is directed only at recipients who are institutional clients such as eligible counterparties or professional clients as defined by the Markets in Financial Instruments Directive 2014/65/EC ("MiFID") or similar regulations in other jurisdictions.

In particular, we wish to draw your attention to the following risks: Investments in the securities of emerging-market countries may exhibit considerable price volatility and – in addition to the unpredictable social, political and economic environment – may also be subject to general operating and regulatory conditions that differ from the standards commonly found in industrialized countries. The currencies of emerging-market countries may exhibit wider fluctuations. Investments in riskier, higher-yielding bonds are generally considered to be more speculative in nature. These bonds carry a higher credit risk and their prices are more volatile than bonds with superior credit ratings. There is also a greater risk of losing the original investment and the associated income payments. Investments in derivatives are often exposed to the risks associated with the underlying markets or financial instruments, as well as issuer risks. Derivatives tend to carry more risk than direct investments. The investment universe may involve investments in countries where the local capital markets may not yet qualify as recognized capital markets.

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 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.

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