

Monthly commentary / 30.8.2024

Vontobel Fund II – Megatrends

Marketing document for institutional investors in: AT, CH, DE, ES, FR, GB, IT, LI, LU, 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

August proved to be a volatile month for investors, smashing their hopes for a calm late summer. The month began with a sharp sell-off in global equity markets. With weaker-than-expected manufacturing activity and a slight rise in the unemployment rate in the US, concerns about a potential recession there grew. A hike of its key interest rate by the Bank of Japan disrupted carry-trade positions relying on low borrowing costs in the Japanese yen. Later in the month, investors' expectations of an imminent cut of its key interest rate by the US central bank Fed took hold again, which caused equity markets to rebound.

Portfolio review

In August, we initiated six new positions and sold four existing ones. The decline of the Japanese equity market created an attractive entry point for us to buy Hitachi (Energy Revolution), Ebara and Organo (both Aqua). Besides these Japanese firms, we added Italian Prysmian (Sustainable Infrastructure) following a share price drop. We also bought French Accor Hotels (NextGen Consumer), given strong travel momentum in Europe and Asia. Moreover, we purchased Chinese CIMC Enric (Energy Revolution), a manufacturer of engines for liquefied natural gas (LNG) trucks, to capitalize on China's rapid transition from diesel to LNG-fired engines.

In turn, we exited Wesco International on concerns about slowing industrial activity in the US. We also sold ABB, whose stock we deemed fully priced after a strong rise. Furthermore, we discontinued semiconductor firm Allegro Microsystems (Future Mobility), which faces challenges with slowing electric-vehicle sales. Finally, we closed Xinyi Solar due to ongoing challenges in the Chinese solar industry.

Performance analysis

In August, the fund performed positively but lagged the reference index. Compared to the latter, the fund felt the sell-off in equities more heavily, given its higher exposure to smaller companies from less defensive sectors than healthcare and consumer staples, whose stocks held up well. Theme-wise, Fintech contributed the most, as payment companies reported

strong results, driven by solid consumer spending. Among them, Mercadolibre, a leading e-commerce and payment systems company in Latin America, stood out. Future Healthcare contributed significantly too, thanks to strong earnings in the fields of medical technology and surgical robotics, with Boston Scientific, Medtronic, and Intuitive Surgical shining bright. Smart Farming & Foodtech showed good momentum. While agricultural-technology companies faced challenges, food-technology ones like Ingredion, DSM, and Givaudan benefited from lower input costs. Among the detractors was Robotics, as the share prices of semiconductor-equipment firms pulled back after the strong surge seen since year-start. Energy Revolution detracted as well, because the slowdown in China's economy dampened demand for transition materials like copper and iron. Hydrogen was another drag, with Chart Industries detracting the most.

Outlook

We stay convinced that the future winners of long-term structural shifts will be those firms that invest now in solutions to tackle demographic shifts, geopolitical uncertainty, or climate change, firms that provide technologies to mitigate or overcome such challenges, innovative firms active in energy transition, robotics, sustainable infrastructure, future mobility, water, healthcare, cloud computing or strong consumer trends – in short, firms our fund aims to support.

Our high allocation to Cloud Computing is based on our conviction that companies operating in crucial sectors like data centers, software, and cybersecurity are well positioned to substantially benefit from artificial intelligence (AI). Growth of AI training and inference will lead to higher energy demand, which requires modernization of grid and transmission infrastructure. Therefore, we also keep a higher allocation to Sustainable Infrastructure. In contrast, our largest underweight is Future Mobility, as demand for electric vehicles (EV) continues to fall short of expectations, with a negative influence on the value chain, including batteries, lithium, and EV manufacturers.

Fund characteristics

Fund name	Vontobel Fund II – Megatrends
ISIN	LU2275724420
Share class	V USD
Reference index	MSCI All Country World Index TR net
Inception date	7.6.2021

Historical performance (net returns, in %)

Time period	Fund	Ref. index	Time period	Fund	Ref. index
MTD	1.9%	2.5%	2023	22.4%	22.2%
YTD	9.0%	16.0%	2022	-32.8%	-18.4%
1 yr	14.9%	23.4%	2021	6.0%	18.5%
3 yrs p.a.	-5.3%	5.8%	2020	48.0%	16.3%
5 yrs p.a.	–	–	2019	–	–
10 yrs p.a.	–	–	2018	–	–
ITD p.a.	9.4%	11.8%	2017	–	–
			2016	–	–
			2015	–	–
			2014	–	–

Past performance is not a reliable indicator of current or future performance. Performance data does not consider 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.

Investment risks

- Investments in Chinese A-Shares are subject to changes in political, economic and social conditions in China as well as changes in the policies of the PRC government, laws and regulations.
- The portfolio has lower risk diversification as the focus lies on companies within a specific investment theme.
- A company's stock price may be adversely affected by changes in the company, its industry or economic environment and prices can change quickly. Equities typically involve higher risks than bonds and money market instruments.
- 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.
- 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-funds' investments in the medium to long term due to the mitigating nature of the sub-fund's ESG approach. The sub-funds' 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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