

Monthly commentary / 30.8.2024

Vontobel Fund – Emerging Markets Equity

Marketing document for institutional investors in: AT, CH, DE, 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.

Summary

- The performance of the fund was positive in August 2024 but underperformed the MSCI Emerging Markets ND.
- The Materials and Financials sectors were positive contributors to relative performance over the month. The Industrials and Information Technology sectors were the largest detractors from relative performance.
- On a country basis, Brazil and Indonesia contributed to relative performance, while the China and Turkey detracted from relative performance.
- Relative to the benchmark, the Fund's largest sector overweights for the month were Consumer Staples and Health Care while the largest sector underweights were Financials and Materials.
- The fund's largest country overweights relative to the benchmark were the Brazil and Hong Kong while largest underweights were the China and Saudi Arabia at the end of month.

Market developments

A combination of factors including weak US jobs data and an interest rate hike in Japan contributed to a sharp global downturn in the first few days of August. Japanese stocks suffered their worst one-day slump since 1987 as the yen's rise prompted the unwinding of carry trades. Pessimism was exacerbated by falling China PMIs and ongoing weakness in Europe. However, the mood quickly shifted as hopes of a soft economic landing returned, and global equities regained lost ground to end the month in positive territory. The Federal Reserve gave market confidence a further boost as Chair Jerome Powell gave his least ambiguous guidance yet, indicating at the annual meeting in Jackson Hole that it was time to adjust monetary policy. The S&P 500 rebounded, yet progress softened somewhat at the end of the month after Nvidia projections failed to live up to market expectations and caution around megacap tech stocks returned. Emerging market equities modestly lagged the global equity benchmark (MSCI All Country World Index) over concerns about economic progress in China and high valuations in India. European equities also modestly lagged the global equity benchmark in euro terms, although expectations converged around the European Central Bank's second interest rate cut coming in September.

Portfolio review

Purchases

Avenue Supermarts Ltd

Avenue Supermarts is an Indian retail corporation that operates DMart, a supermarket and hypermarket chain. The company operates a differentiated everyday low-price strategy across all stores, which has helped them achieve the highest revenue per square foot in the industry. Its productivity and operational efficiency are far ahead of peers which will allow the company to continue to offer everyday low prices while

achieving best operating margins in the Indian grocery industry. The company has a ton of room for growth with only 365 stores across India.

Sales

Baidu Inc.

We sold Baidu as the ad growth was coming through weaker than expected and the AI related search monetization was still not contributing. We also found better alternatives.

Performance analysis

TOP3 Contributors:

Nu Holdings Ltd/Cayman Isl-A

The bank's inclusion in the MSCI index at the end of August has largely driven the strong monthly performance. Additionally, increased market share and continued strong growth figures across the product portfolio both in Brazil and Mexico are providing reassurance to investors that Nu's business model is working.

Mercadolibre Inc

Mercado Libre reported a strong second quarter. Company earnings beat consensus estimates by 24%. Performance was driven by strong GMV growth momentum, improved monetization of the platform, and growth in the credit loan book.

Tencent Holdings Ltd

Tencent recovered after reporting solid growth in 2Q with revenue growth of 8%, OP +27%, and eps +55%. Eps beat by around 20% due to higher share of associates. Overall games growth is picking up both on domestic and international gaming, and advertising revenue strength driven by video accounts.

TOP3 Detractors:

PDD Holdings Inc

Pinduoduo reported a mixed quarter with top line growth of 86% missing estimates by 3% and earnings estimates beating

consensus by 13%. In the earnings release and on the call, management said that revenue growth will inevitably face pressure due to competition and external challenges. Additionally, the company will be investing heavily into the platform to improve trust and safety and to support high quality merchants. Management is guiding a slow and gradual decline to profitability over the next few quarters as they focus on the long term.

Samsung Electronics Co Ltd

After the weaker than expected earnings surprise of Nvidia and growing concerns about the memory cycle, the market seems to worry about oversupply under weakening set demand. Procurement from China smartphone and PC OEMs has slowed down. On the other hand, conventional server memory demand remains firm. The market is overlooking Samsung's potential catch-up in HBM3E from late 2024 as well as DDR5 and NAND tech migration. Moreover, Samsung is more competitive in the customization of logic dies for customers of HBM4 given its internal design capability.

Haci Omer Sabanci Holding

The weak performance was driven by a lack of M&A activity at conglomerate level, in addition to slightly weak quarterly figures, especially in the energy segment. Sabanci remains an M&A story, where a higher valuation for the different segments should be achieved through IPOs and spin-offs. The highly awaited IPO of Enerjisa should most likely happen early next year. The second half of the year should see a recovery in financial performance for the energy segment.

Outlook

We continue to invest with our disciplined approach, rather than speculate on the latest fad, as we do not know when a downturn will hit. We expect we will be in a prolonged period of volatility, and the tougher environment is not behind us. We believe our consistent approach focused on resilient companies with a high degree of predictability in earnings growth will enable us to keep pace and successfully complete the marathon that is long-term investing.

Fund characteristics

Fund name	Vontobel Fund – Emerging Markets Equity
ISIN	LU0278093082
Share class	I USD
Reference index	MSCI Emerging Markets TR net
Inception date	30.3.2007

Historical performance (net returns, in %)

Time period	Fund	Ref. index	Time period	Fund	Ref. index
MTD	1.0%	1.6%	2023	2.5%	9.8%
YTD	0.8%	9.5%	2022	-23.3%	-20.1%
1 yr	3.9%	15.1%	2021	-6.0%	-2.5%
3 yrs p.a.	-8.4%	-3.1%	2020	16.0%	18.3%
5 yrs p.a.	-1.6%	4.8%	2019	18.3%	18.4%
10 yrs p.a.	0.0%	2.6%	2018	-14.2%	-14.6%
ITD p.a.	3.5%	3.5%	2017	34.2%	37.3%
			2016	0.7%	11.2%
			2015	-8.5%	-14.9%
			2014	5.9%	-2.2%

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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.
- 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.
- 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.
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