Vontobel Fund - Future Resources

Vontobel Asset Management

Quarterly Report - Q3 2013

Performance (in %)

	Q3/13	YTD	1 y. p.a.	3 y. p.a.	since inception
B EUR	3.4	3.4	4.2	5.5	85.6
I EUR	3.6	4.0	5.1	6.5	93.8
N EUR	n.a.	n.a.	n.a.	n.a.	-0.3
Index	3.9	14.2	14.2	12.1	87.0

Benchmark: MSCI World Index TR net

Source: Bank Vontobel AG. Past performance is not a guide to current or future performance. The performance data do not take account of the commissions and costs incurred on issue and redemption. The return of the fund can be a result of currency fluctuations rise or fall.

Market developments

In the face of the boom in unconventional oil and gas production in the US and Canada, some initiatives are taking shape to push forward development in other countries. The Mexican government has proposed major reforms to encourage more private investment into its moribund energy industry. State oil-company Pemex is still a big player in the global oil and gas industry, albeit for several decades Mexico has siphoned off the company's cash flow for government spending, resulting in declining production. This means that Mexico may become a net oil-importer later in the decade. Mexico's oil and gas resources are estimated at 115 billion barrels of oil equivalent, with three quarters identified as unconventional – shale oil, shale gas and deep water oil and gas – If reforms are enacted, this should in time provide a boost for oil and gas equipment as well as services demand. Elsewhere in the world, the Argentine government signed a deal with Chevron to develop their giant "Vaca Muerta" shale field and also announced tax and export incentives. The United Kingdom also announced tax incentives to promote domestic shale-development.

During the quarter we undertook a trip to China in order to better understand their coal conversion activities. For several decades, China, with their abundant supplies of domestic coal, has been using coal as a feedstock for products such as nitrogen-based fertilisers and some chemical products such as methanol. In recent years, the country has been promoting coal conversion into more product areas such as petrochemicals, natural gas and liquid fuels in order to 1) stimulate the economy in the traditional coal-producing regions in the west of the country and to the north, in Inner Mongolia; and 2) reduce the need for imported oil and gas.

Technological hurdles are not particularly severe and there are processes that have been demonstrated to work, for which licenses can be bought. Cash operating costs, particularly in the area of petrochemicals, are fairly competitive in a global context. However there are two major issues: 1) capital costs are very high, which is important in the environment. China's coal industry is in a weak financial position due to low coal-prices; and 2) the processes emit considerable amounts of carbon dioxide and consume a large amount of water which needs to be treated. For these reasons we have determined that this is not an appropriate area to invest in.

The Chinese government seems to favour the approval of projects that convert coal to natural gas. However, there is currently a bottleneck due to the lack of pipelines that can bring the gas from the inland coal regions to the consuming markets, which are mainly on or near the coast.

Portfolio review

We sold three positions during the quarter. Our remaining position in Lufkin Industries was sold as General Electric completed its acquisition of the company. Ensco was removed as industry day rates – the cost of a particular service for a day's period – appear to be softening in some of the older ultra-deep-water rigs. MRC Global was sold in order to fund higher conviction ideas for the portfolio.

Range Resources, a US-based shale-gas producer, was introduced to the fund. The company is demonstrating strong performance through the enhancement of extraction technologies in its operations. The other new addition was GCL-Poly Energy, a Chinese polysilicon producer, marking our first foray into the solar industry, after a long period without any exposure. As a low-cost producer in an industry segment that enjoys good barriers to entry, it should benefit as China strives to meet high solar-installation targets.

The holding in Schlumberger was meaningfully increased as the company has further demonstrated an important positive inflection point in its operating results. Some profits in DSM, formerly the fund's largest holding, were taken as outperformance has resulted in diminished upside potential for the share-price.

Performance analysis

The fund returned 3.4%, compared to a 3.9% for the benchmark. Stock selection had a negative impact on relative performance. Cameron International was the main detractor to performance as delays in some projects pushed contract awards further out in time. MRC Global also hindered overall performance with weak second quarter financial results. On the positive side, Chart Industries led the pack as demand increased for liquefied natural gas equipment. DSM followed close behind with improving fundamentals in its nutrition markets.

Outlook

Significant advances have been made in resource-extraction technologies, overall resource-management and the drive to create substitutes for resources as well as the materials and goods made from them. Demand for these, in our opinion, will continue to remain strong and probably even accelerate as we continue to see scarcity challenges across the entire resource spectrum of agriculture, energy, metals and water. It is only recently that these challenges have surfaced and therefore there is the promise of a multitude of scientific and engineering solutions that accompany these issues and will continue to create attractive investment opportunities.

Fund information

Share Class	Currency	ISIN	Inception Date
A	EUR	LU0384406087	17/11/2008
B	EUR	LU0384406160	17/11/2008
I	EUR	LU0384406327	17/11/2008
N	EUR	LU0952815594	22/07/2013

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Bank Vontobel AG
Gotthardstrasse 43, 8022 Zurich
Telephone +41 (0)58 283 71 11
Telefax +41 (0)58 283 76 50
www.vontobel.com