Performance (in %)

	Q3/13	YTD	1 y. p.a.
B USD	-0.4	-8.3	-5.5
I USD	-0.2	-7.9	-4.9
Index	-0.4	-7.6	-3.7

Benchmark: JP Morgan GBI-EM Gl. Divers. Comp. USD

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

The third quarter of 2013 was a very volatile period for emerging-market bond and currency markets. Liquidity was thin over the summer months and there were mixed data releases from the US. Many investors seemed to be waiting for the outcome of the September meeting of the US Federal Reserve (Fed), which unexpectedly did not announce an end ("tapering") to its liquidity-injection programme ("QE"). Speculation about the Fed's future leadership as well as geopolitical tensions surrounding the situation in Syria also added to market volatility. At the end of August, valuations for bonds and currencies had corrected significantly compared with the levels seen at the beginning of the second quarter. In September, reduced geopolitical tensions and the above-mentioned Fed decision to continue its security-buying scheme saw markets bounce back. Unfortunately, uncertainty re-emerged in the last days of September due to the looming US government shutdown and the acrimonious debate regarding the country's budget and "debt ceiling". Overall, Romania (7.6%), Poland (7.2%) and Hungary (5.8%) were the best quarterly performers in US-dollar terms, whilst Indonesia (-17.4%), Turkey (-4.5%) and Malaysia (-2.8%) were the quarter's laggards.

Portfolio review

As a result of the rapidly changing market environment, there were significant changes in the portfolio's currency allocation throughout the third quarter. Overall, compared with the end of the second quarter, currency exposure in Asia, Eastern Europe and Africa was increased to 24%, 33% and 12% respectively, while exposure to Latin America remained at 34%. Several intra-regional changes were made to cover underweight positions in single markets in early September. The sell-off in August had led to significant improvements in valuation which have created the anticipation of a rebound in emerging-bond and currency markets.

Performance analysis

In the third quarter, the Vontobel Fund – Emerging Markets Bond posted a return of -0.4% in US-dollar terms, in line with the benchmark which also fell 0.4%.

Our underweight positions in August in markets most heavily affected by adverse investor sentiment helped the fund's performance. Our cash holdings also had a positive effect.

Outlook

Looking back at the historical behaviour of emerging-market local-currency bond markets, a rapid market sell-off was most often followed by a quick recovery. So investors who view their allocation to emerging-market bonds in a more strategic light and are thus prepared to ride out the volatility inherent in this asset class have been able to recoup their losses in a relatively short period of time. Bond and currency markets have started to recover in September after fears of the Fed tapering its QE programme subsided. The less sustainable the outcome of the US debt-ceiling debate turns out to be, the smaller the possibility of any monetary tightening in the US.

In general, a real and sustainable recovery in the US economy is likely have positive spill-over effects globally and be beneficial for growth in many emerging markets linked to US demand. However, if recent events in the US were to derail an economic recovery, there might be a possibility of more stimulus measures being introduced in the US. Moreover, the Bank of Japan (BoJ) still has a pipeline for further monetary stimulus and both the European Central Bank (ECB) and the Bank of England (BoE) have indicated their willingness to maintain a very loose monetary policy. As a result, global liquidity is likely to remain ample.

Emerging-market bonds with their relatively high “carry” (the yield to maturity for emerging-market local-currency debt was 6.6% at the end of September 2013) and comparatively better debt metrics (the average public-debt-to-GDP ratio for the emerging-markets universe is about 40%) will remain recipient of this liquidity. In such an environment, emerging-market bonds should be able to perform well, although they may be subject to bouts of volatility. This makes an active-management approach the preferred way to invest in this asset class.

Fund information

Share Class	Currency	ISIN	Inception Date
B	USD	LU0563307718	25/01/2011
I	USD	LU0563307981	25/01/2011

Important legal information

This document is for information purposes only and does not constitute an offer to subscribe for shares of the Fund. Subscriptions of the Vontobel Fund, an investment fund under Luxembourg law (SICAV), should in any event be made solely on the basis of the current offering prospectus, the Key Investor Information Document (KIID), the articles of incorporation and the most recent annual or semi-annual report (for Italy also the "Modulo di Sottoscrizione") and after seeking the advice of an independent finance, legal, accounting and tax specialist. Interested parties may obtain the above-mentioned documents, as well as the list of changes in portfolio during the year and the list of benchmarks free of charge from the representative in Switzerland: Vontobel Fonds Services AG, Gotthardstrasse 43, 8022 Zurich, the paying agent in Switzerland: Bank Vontobel AG, Gotthardstrasse 43, 8022 Zurich, the paying agent in Austria Erste Bank der oesterreichischen Sparkassen AG, Graben 21, A-1010 Wien, the paying agent in Germany: B. Metzler seel. Sohn & Co. KGaA, Grosse Gallusstrasse 18, 60311 Frankfurt/Main, from the authorized distribution agencies and from the offices of the fund at 69, route d'Esch, L-1470 Luxembourg. They may also download these documents from our website at funds.vontobel.com. The Fund and its subfunds are included in the register of Netherland's Authority for the Financial Markets as mentioned in article 1:107 of the Financial Markets Supervision Act (Wet op het financiële toezicht). In Spain, funds authorized for distribution are recorded in the register of foreign collective investment companies maintained by the Spanish CNMV (under number 280). The funds authorized for distribution in the United Kingdom can be viewed in the FCA register under the Scheme Reference Number 466623. Past performance is not a reliable indicator of current or future performance. Performance data take no account of the commissions and costs charged when units are issued and redeemed. The return of the Fund may go down as well as up due to changes in rates of exchange between currencies.

An investment in a sub-fund of the Vontobel Fund carries various risks which are explained in the sales prospectus. 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 industrialised 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.

Commodity investments can be very volatile and are prone to sudden swings over the long run. Governments may at times intervene directly in certain commodity markets. These interventions can cause significant swings in the prices of different commodities.

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.

This document has been produced by Bank Vontobel AG ("Vontobel"). It is explicitly not the result of a financial analysis and therefore the "Directives on the Independence of Financial Research" of the Swiss Bankers Association is not applicable. Vontobel and/or its board of directors, executive management and employees may have or have had interests or positions in, or traded or acted as market maker in relevant securities. Furthermore, such entities or persons may have or have had a relationship with or may provide or have provided corporate finance or other services to or serve or have served as directors of relevant companies. Although Vontobel believes that the information provided in this document is based on reliable sources, it cannot assume responsibility for the quality, correctness, timeliness or completeness of the information contained in this report.

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