PICTET
1805
Asset Management

Pictet - Asian Equities Ex Japan - I USD

Risk and reward profile

Don't take unnecessary risks. Read the Key Investor Information Document.

Lower Risk						Higher Risk
1	2	3	4	5	**6**	7

Typically lower rewards — Typically higher rewards

Market review

Emerging markets (as measured by MSCI Emerging Markets) finished the month of February down ca. 3.1%, underperforming developed markets which returned ca. -2.7%. Asia ex Japan saw negative returns, with China and India being the main detractors. For China, the market still appears unconvinced on the country's growth trajectory. The continued regulatory burden kept sentiment low as we saw new regulations impacting names like Alibaba and Meituan. The month began with consensus that the Fed would take a more aggressive stance with regards to interest rate hikes as a way of containing inflation. Given the escalation of the Russia-Ukraine tensions, momentum around how hawkish the Fed would be started to be questioned, impacting risk assets and increasing risk-off sentiment. Following the Ukraine invasion, there has been a surge in commodity prices, with Brent crude oil reaching over $100 a barrel for the first time since 2014. This not only spurred increased inflationary pressure but has seen regions such as India being impacted. Given the already high valuations across the country, it is unsurprising that we are now seeing some form of market correction. India also released its budget this month, focussing on support for infrastructure, ESG and digitisation. ASEAN was the strongest performing region with key net exporter regions benefitting from the surge in commodity prices.

Performance analysis

The strategy underperformed the index for the month, with both selection and allocation (a fallout of selection) being negative. Selection was positive within consumer staples, but this was more than offset by negative selection within materials, communication services and industrials. Our overweight to consumer staples name Jiangsu Yanghe Brewery contributed positively to performance during the month while names such as Beijing Oriental Yuhong in the materials sector, which performed strongly in January, weighed on performance. Given treasury yields spiking linked to higher US inflation, growth names such as Tencent within the communication services space, detracted from performance. Within industrials, China Lesso underperformed due to continued jitters around the property market. We see this as an overreaction and our investment thesis still stands, especially as the company is diversifying its customer base, combined with down payment requirements being reduced and mortgage rates dropped, which we see as the start of support for the sector. Within materials, Nine Dragons detracted as well as not being exposed to the likes of Posco. For Nine Dragons, the stock lagged on covid variants, driving demand weakness as well as a weaker export market. However, we maintain our position given our expectations of an easing liquidity backdrop.

Portfolio activity - overweightings & underweightings

Following Tencent reducing their stake in SEA last month, we continued to increase our active weight to SEA following the correction in the share price. We still have conviction in the company, particularly as they growth their business in Brazil and India. We are seeing incremental positives come out of these regions, but the markets are yet to price these into their valuations until they see SEA as a relevant and developed platform in these markets. We also increased our active weight in Pharmaron following a correction in the market. The commodities rally that we have seen this month has resulted in an increase in input costs for companies such as Interglobe Aviation. This combined with the company’s stock overhang has resulted in our position being trimmed. New positions were initiated in Chinese solar power supply company Sungrow and Taiwanese electrical component company Silergy.

Market outlook

Sentiment is low following a challenging 2021, which is reflected in valuations, notably for China. However, the region remains geographically one of the highest growth areas as well as being at the forefront of themes such as digitalization, technology and environmental advances. ,Asia ex Japan valuations look attractive, trading on a forward price earnings ratio of 14.4x which equates to a discount of 26% to developed markets. However, events in Ukraine have changed not just emerging markets but global expectations and scenarios. Within emerging markets, commodity producing nations should stand to benefit what was even prior to the current crisis, an already a structurally strong commodity market. Our original base case still stands for emerging market growth to comfortably outstrip that of developed markets over the medium term. Coronavirus complications still exist, but we still view this as transitory rather than derailing the investment case for the region. We continue to see the region playing a key role in areas such as energy transition, which may lead to pockets of undiscovered value. We do not take any top-down currency views, but emerging market currencies remain very cheap relative to the dollar. Whilst volatility may appear daunting, it can provide for good opportunities to purchase solid investments, which have been unfairly swept up in broader market sell-offs.

Portfolio strategy

Our valuation disciplined strategy is focused on free cash flow generation across both structural compounder and cyclical turnaround companies. We believe that cash generation ability and bright prospects for reinvestment for the companies we hold will, over the long term, deliver attractive returns. We maintain a strong valuation discipline but view this through the lens of cashflow returns and cashflow generation. At a sector level, the fund is overweight financials, information technology and consumer discretionary and underweight real estate, consumer staples and energy. At a country level, the fund is overweight Taiwan, Vietnam and Indonesia while underweight Korea, Thailand and Malaysia.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	27.04.2000
Launch date	06.12.2006
Share class currency	USD
Compartment currency	USD
ISIN	LU0111012836
Reference index	MSCI AC Asia ex-Japan (USD)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	1.04%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.70%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Avo Ora
James Kenney
Prashant Kothari

Source: Pictet Asset Management

Further information can be found in the prospectus.

Pictet Asset Management

For further information, please visit our website assetmanagement.pictet

Important Information