PICTET
1805
Asset Management

Pictet - Emerging Markets - P 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%. The month started with expectations that the Fed will have to take a more aggressive stance with regards to interest rate hikes, only to be scaled back by month end. Political uncertainty around the Russia-Ukraine geopolitical tensions dominated newsflow and heightened market volatility, resulting in increased risk-off sentiment. The month ended with a full-fledged invasion of Ukraine. The Central Bank of Russia (CBR) was removed from SWIFT, resulting in significant depreciation of the ruble, an increase in Russian interest rates (to 20%), capital controls being implemented to prevent capital leaving Russia and a surge in Brent crude oil prices to reach over $100 a barrel, spurring increased inflationary pressure. Performance was led by Latin America through attractive valuations and benefitting from the commodity price rally while EM Asia and EMEA produced negative returns. Asian equities struggled following a significant increase in US inflation, causing a spike in treasury yields. The regulatory burden in China kept sentiment low as we saw new regulations impacting names like Alibaba and Meituan. Across the broader EM market, materials and industrials outperformed whilst healthcare and consumer discretionary lagged.

Performance analysis

The strategy lagged the index for the month, with selection hurting performance, while allocation (a fallout of selection) was marginally positive. Selection was positive within consumer staples, consumer discretionary and healthcarel; however, this was more than offset by challenged selection within financials, energy and information technology. The Winter Olympics out in Beijing drove strong returns for our overweight position in consumer discretionary name Topsports whilst within consumer staples strong performance came from Jiangsu Yanghe Brewery. With the escalation of the Russia-Ukraine geopolitical tensions, resulting at the end of the month in an invasion of Ukraine by Russia, financial holdings such as TCS and Sberbank dragged on performance. Despite the rally in oil and gas names, Russian energy company Gazprom was also a burden on performance.

Portfolio activity - overweightings & underweightings

We closed out of our remaining positions in Russia during the month (Sberbank, TCS and Gazprom) as we saw the tensions between Russia and Ukraine rise. These positions were exited ahead of the invasion by Russia and the suspension on selling of foreign assets. Three positions were initiated during February: XP Investimentos, the leading challenger bank in Brazil, Chinese solar power supply company, Sungrow and Taiwanese electrical component company, Silergy. We added to our position in HDFC following recent underperformance and a positive meeting with management, confirming our investment thesis. Our active weight position in Sea Ltd increased following the recent correction as we saw Tencent reduce their holding in the company last month. SBI was also added to following recent underperformance.

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. Emerging equity market valuations look attractive, trading on a forward price earnings ratio of 11.6x, which equates to a discount of 33% 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. On the potential for inflation, this is likely to impact specific countries such as Turkey, where inflation risks were already high. 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. 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 information technology, consumer discretionary and industrials while underweight energy, consumer staples and communication services. At a country level, the fund is overweight Taiwan, Brazil and Argentina and underweight India, South Africa and Korea.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	13.09.1991
Launch date	13.11.2006
Share class currency	USD
Compartment currency	USD
ISIN	LU0130729220
Reference index	MSCI EM (USD)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	1.75%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	1.40%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	3.00%

Management team

Avo Ora
James Kenney

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