PICTET
Asset Management

Pictet - Indian Equities - 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%. Political uncertainty around the Russia-Ukraine geopolitical tensions dominated news flow and heightened market volatility, resulting in increased risk-off sentiment. The month ended with a full-fledged invasion of Ukraine, which has led to a surge in Brent crude oil prices to over $100 a barrel for the first time since 2014, spurring increased inflationary pressure. The MSCI India was down ca. 4.1% (USD terms) in February, underperforming the broader MSCI Emerging Markets and MSCI Asia ex. Japan benchmarks. This month saw the RBI reiterate its accommodative stance around interest rates, as expected, and the start of the month saw the release of the Union Budget, which focused on capex and infrastructure spending going forward. Looking at preliminary January trade data, the monthly trade deficit narrowed to USD 17.4bn from USD 21.7bn in December, with exports and imports declining against the figures seen for December.

Performance analysis

The portfolio lagged the benchmark during the month. Both selection and allocation (a fallout of selection) were negative. Selection was particularly challenged within financials, consumer staples and healthcare and more than offset positive selection within information technology and industrials. From an allocation perspective, being underweight energy and materials was unhelpful as was being overweight to financials. Financials have seen a large derating over the last year which has resulted in a rotation of the strategy's positioning to prefer insurance names. However, with global equity markets de-risking across the month, the broader sector saw headwinds, with SBI Life and HDFC detracting from performance. Within consumer staples, Godrei Consumer Products Ltd weighed on performance and through pricing pressure negatively impacting Alkem's revenues, the off-benchmark name also detracted from performance. Our overweight to the information technology sector through names such as HCI and Mphasis contributed positively to returns along with industrials name InterGlobe Aviation, which has been benefiting from the reopening of trade.

Portfolio activity - overweightings & underweightings

We trimmed our position in InterGlobe Aviation during the month. With the ongoing Russia-Ukraine tensions that have now resulted in an invasion of Ukraine by Russia, we see potential headwinds for the company in the short term following the significant surge in crude oil prices, thus inflating input costs for this airline company.

Market outlook

The near-term outlook has come under a cloud in light of the pandemic and the Russia-Ukraine situation, which has spurred volatility across global markets. With the elevated valuation levels that we are now seeing in the region, a more targeted approach is warranted towards investment opportunities in the country. We anticipate e-commerce and fintech-linked names to continue to come to the market, which could provide for interesting opportunities. Whilst we saw the RBI keep its stance accommodative this month, we continue to keep a close eye on inflation progression. We believe the long-term structural story stands strong. Crises in India usually advance structural reforms. For instance, we would expect accelerated privatisation of state-owned businesses to fill up the budget gap. The government has introduced schemes to incentivise domestic manufacturing while focusing on land and labour reforms as well. These efforts should allow the manufacturing ecosystem to develop in India, enabling faster job creation.

Portfolio strategy

Our strategy is to buy quality businesses whenever they are available at a reasonable valuation. This usually implies taking contrarian positions on good businesses facing temporary problems. A recent market event such as the Covid-19 pandemic, with its effect on stock prices being clear, highlights how business risks can come out of thin air - quite literally in this case. For us, this reinforces the notion that investing in quality firms with strong business models are more resilient to weather volatility. We are witnessing companies with strong balance sheets and competent management taking this as an opportunity to become more efficient and gain market share. Indian corporate sector margins are coming up from a long downward trend. This has been evident in almost 20% earnings growth for Indian corporates despite operating in the year of Covid. We expect this upward bias to sustain as the economy recovers and provide earnings support to the valuations going ahead. Hence, we view this as a favourable time for investors looking to build a long-term portfolio to gain from India's attractive investment case.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	10.11.2003
Launch date	04.12.2006
Share class currency	USD
Compartment currency	USD
ISIN	LU0180457029
Reference index	MSCI India 10/40 (USD)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	1.03%
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

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

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