Monthly Manager Comments
28.02.2022

Pictet - Digital - 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

During February 2022, equities remained under pressure as Russia decided to initiate a large scale invasion in Ukraine, worsening further inflation concerns as well as uncertainties about the pace of central banks' interest rate hikes. Fear of a possible shortage of energy supply coming from Russia led the Brent oil above $100 per barrel and European natural gas prices to rise 15%. Elevated energy prices could drive further or more persistent inflation, leaving less visibility about the possible actions central banks will take to either fuel economic growth or keep inflation under control. In the US, strong inflation, solid employment data, and reassuring earnings, led the market to expect the Fed to implement nearly six rate hikes by the end of the year. In that context, the MSCI ACWI returned -2.7% MTD while the MSCI ACWI IT returned -4.5% MTD. Within the IT segments, Software was the worst performing segment ending up with a negative performance due to some rotation out of riskier/ long duration/growth names. The hardware segment also showed negative returns, driven by Apple weakness. Semiconductors had negative returns but showed resiliency as end demand remains very strong and most names guided to improvements with supply coming back online in the second half of 2022. Playing their defensive role, Telecoms ended up almost positive in February as the market rotated.

Performance analysis

During February 2022, Pictet Digital underperformed the MSCI ACWI and the MSCI ACWI IT. Within Pictet Digital, all segments ended up in negative territory and Network operators remained the most resilient, driven by T-Mobile and Verizon. Devices played a defensive role as well, driven by the outperformance of Nintendo. Interactive Entertainment came third in terms of contribution, as Activision contributed positively in the wake of the announcement of Microsoft's intention to acquire them and did not detract this month, while Tencent was the segment's main detractor. Within Online Advertising, Snap's strong outperformance was more than offset by Meta's weakness, as the firms posted a disappointing Q1 revenue guidance of 3-11% y/y growth (vs. +20% in Q4), due to worsening ad revenue, supply chain disruptions, and increasing competition from TikTok. E-commerce suffered from continued weakness of Alibaba, Booking's disappointing profitability guide and Shopify's higher-than-expected CAPEX guide. Enterprise SaaS was the worst performing segment due to continued rotation out expensive names and PayPal, which got hit on earnings, as the firms posted a lower-than-expected revenue and net new account guidance.

Portfolio activity - overweightings & underweightings

During February 2022, we initiated a position in Twilio as we see the firm well positioned to become a leading unified communications software in the future thanks to its omni-channel and highly customizable platform used by more than 10 million developers and high and durable growth outlook (>30%+ until FY24), driven by its CCaaS tool Flex and its leading Customer Data Platform (CDP) software Segment. We also increased our position in SNAP as the company remained at attractive valuation levels while showing strong growth potential given its differentiated value proposition versus competition and leadership in AR/VR software technology. We also increased our position in Meta following the drawdown on its earnings' day as the company reached valuation levels of 3.3x EV/sales FY2 lower than during the Cambridge Analytica scandal. We believe that the potential impact of IDFA/AAID policy changes are now more than priced in, and thanks to the deployment of server to server build out, Meta remains a key leading player in the online advertising industry. We reduced our position in Apple as the stock is still trading at a significant premium relative to its past multiples while offering less than 7.5% growth over the next two years, and facing pressure on its service revenue margins due to the risk of having to reduce the take rate on its platform.

Market outlook

The Digital fund should remain defensive as penetration rates in every sub sector are still low and worldwide internet penetration is still at 65.6% in 2021. The migration of advertising spending online will accelerate (61.5% penetration rate 2022e) as will the migration in e-commerce spending (21% penetration rate in 2022e). This will be driven by the increasing usage for smartphones (76% of the digital spending in 2022e) as these devices include more services including payment, streaming, or gaming (1.9bn Mobile gaming users 2022e). Interactive software deployments for Enterprises and cloud migration will continue to grow faster as it is more cost efficient than traditional IT models. Lastly, we see the blockchain infrastructure as a real competitive advantage to massively build up the usage of digital services. The market opportunity for digital transformation (estimated to reach $2.3 trillion in 2023e) should continue to expand as products and services get more user-friendly, cheaper, and cost efficient with more artificial intelligence functionalities embedded thanks to better connectivity.

Portfolio strategy

The fund has benefited from a unique positioning, selecting companies that generate minimum 20% of their revenue from interactive applications with AI being one of the biggest characteristics. The interactive applications group (ecommerce business models, online video games, online advertising, interactive software, FinTech, Big Data analytics tools, healthcare IT, cloud organizations) offers secular growth and continues to gain market share. In addition to structural growth, the portfolio is constructed with securities that generate very stable and growing cash flows and have very healthy balance sheets (net cash position).

Source: Pictet Asset Management

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	14.11.1997
Launch date	20.11.2006
Share class currency	USD
Compartment currency	USD
ISIN	LU0101692670
Reference index	MSCI AC World (USD)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	2.00%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	1.60%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	3.00%

Management team

Sylvie Sejournet
Stanislas Effront
Charles Lepetitpas

Source: Pictet Asset Management

Further information can be found in the prospectus.

Pictet Asset Management

For further information, please visit our website assetmanagement.pictet

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