

Pictet - Japanese Equity Opportunities - P GBP

Risk and reward profile

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 Information Document.



Market review

Global equities ended the month sharply lower for a second month in a row after Russia's invasion of Ukraine triggered severe sanctions. The Japanese equity market was somewhat sheltered from the fall, with the TOPIX Index finishing the month down -0.4%. The market actually rallied early in the month, driven by favourable earnings and a recovery in US equities. However, concerns over US monetary tightening and the Ukraine conflict drove selling pressure into the close of the month. Utilities, seen as a defensive sector, was the strongest performing sector in February, followed by communication services and energy. Energy was buoyed by rising oil prices while other traditional defensive sectors such as consumer staples and health care also outperformed the broader market. More cyclical sectors like IT, consumer discretionary and industrials all lagged the market during the month.

Performance analysis

The fund underperformed the TOPIX during February, driven by the fund's sector stock selection in industrials and health care. Within industrials, aside from the negative market reaction, the agricultural machinery company Kubota was hit as its earnings and outlook missed analyst estimates. The company is seeing strong demand, but it will take time for the company to pass the higher cost inputs through into their pricing. Recruit Holdings, the online job platform, also dropped in the month, based around concerns over the post-pandemic outlook. We still believe that the company is well placed to benefit from developing and rolling out their one-stop HR solutions and global HR platform business. Within health care, Terumo Corp, the medical devices company, detracted from relative performance. The company disappointed on earnings as margins narrowed on higher costs. Over the longer term, the company will continue to benefit from higher penetration of their leading-edge devices. The strongest performer in the month was the more defensive discount store owner Pan Pacific International, which also announced strong earnings based on margin improvement as costs were controlled better. The company is likely to gain market share in an inflationary environment.

Portfolio activity - overweightings & underweightings

We exited from the shipping liner company Mitsui O.S.K. over the month. The company has been an extremely strong performer for the company over the last year and a half, benefiting from consolidation in the industry as well as higher container rates. We felt that the upside was limited for the stock and decided to allocate the capital to more attractively valued ideas. We also bought the electronics components manufacturer TDK Corp in February. Their battery business continues to perform well, while we felt the turnaround in their sensor business is underappreciated by the market. We also trimmed our overweight to financials and looked to increase exposure to quality growth in the portfolio over the month. We added to Recruit on weakness.

Market outlook

The invasion of Ukraine and consequent sanctions have shaken global markets and led to soaring commodity prices. Together with the increasing likelihood of recession in Europe and deterioration in real earnings globally, the investment climate has changed substantially. Unless there is a swift resolution to the conflict that is sufficiently acceptable to the world and sanctions can be lifted, it is likely that there is going to be sustained cost-push inflation. Our previous assumption of an inflationary growth boom - inflation driven by demand - is now at risk in favour of higher costs and lower growth in Europe and potentially the US. Japan will clearly not be immune. However, with Japan's major external trade partners being the US, where the pace of monetary tightening is likely to be slower, and China, which is targeting 5.5% GDP growth, then the direct impact to Japan should be comparatively mild. With strong employment and firm household income, a return to the old, damaging, deflationary environment seems unlikely in the near term. Equally unlikely is the very high inflation rates being seen in the US. Governor Kuroda of the Bank of Japan has also made it clear that raising interest rates at this point is "unthinkable", so there is unlikely to be any near-term change in monetary policy.

Portfolio strategy

The investment climate has rapidly changed, with the focus on re-opening taking a different hue as investors try to understand the impacts of further central bank tapering within a higher inflationary environment. The fund has long had exposure to quality cyclicals, and while we are not looking to completely reverse this, we are looking to ensure that each position in the fund has its own clear, endogenous growth drivers. It is also the case that after the very strong outperformance of value vs growth over the last year and a half, quality growth type companies are also looking as attractive on valuations as they have done for some time while many cyclical companies have been approaching their price targets. On a sector basis, our most significant overweight remains in the IT sector, where we are constructively positioned on software companies that are seeing strong demand for digitalisation services domestically, which we expect to continue over the coming years. The biggest underweight continues to be pharmaceuticals, where we are zero weighted, as well as our underweight to consumer staples.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	25.01.2012
Launch date	25.01.2012
Share class currency	GBP
Compartment currency	JPY
ISIN	LU0700312720
Reference index	Topix Net Return (GBP)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	1.58%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	1.20%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	3.00%

Management team

Adrian Hickey

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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