Monthly Manager Comments
28.02.2022

Pictet - Japanese Equity Selection - I JPY

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

Global equities ended the month sharply lower for a second month in a row after the invasion of Ukraine triggered severe sanctions on Russia. 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 global impact of 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 the lift in oil prices, driven by sanctions, while other traditional defensive sectors, 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

While the fund fell with the market during February, it did manage to outperform its MSCI Japan benchmark, helped by strong performance by retailers held in the fund that were perhaps perceived as attractive by investors as domestic plays insulated from the external environment. An example is the discount store owner Pan Pacific International, which also announced strong earnings based on margin improvement as costs were lower than expected. On the other hand, holdings within industrials, such as Fanuc (factory automation) and Hitachi, and tech-related names, such as Shin-Etsu Chemical (functional materials and silicon wafers) and Murata Manufacturing (electronic components), were amongst the worst performers. On more stock specific points, Recruit Holdings, the online job platform, dropped in the month based around concerns over the post-pandemic outlook. However, 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, disappointed on earnings as margins narrowed on higher costs. However, over the longer term, the company will continue to benefit from higher penetration of their leading-edge devices.

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 fund over the last year and a half, benefiting from consolidation in the industry as well as higher container rates. However, given that the current container rates are exceptional and will normalise in the near future, we could no longer justify any further upside for the stock and decided to sell. The fund also exited Tokyo Electron, the semiconductor production equipment manufacturer. This has also been a very strong performer, buoyed by the sharp increase in demand for semiconductors and the shift to new production technologies. Again, we believed the upside was limited for the stock. We added the car and motorbike manufacturer Suzuki Motor Corp as a new position. The main attraction to Suzuki is its exposure to India via its majority holding in Maruti Suzuki Ltd. They have a strong position in India, but recent operational mishaps and a model line up that was missing a SUV offering - the fastest growing segment in India - and no obvious EV strategy had soured investor sentiment. However, with new SUV models and a JV with Toyota on EV technology, it should continue to grow and maintain a high market share in the Indian market.

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.

Source: Pictet Asset Management

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	24.09.1997
Launch date	22.11.2006
Share class currency	JPY
Compartment currency	JPY
ISIN	LU0080998981
Reference index	MSCI Japan (JPY)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	0.91%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.60%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Sam Perry

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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