

Pictet - Japanese Equity Selection - HP EUR

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

Equities had a volatile start to the year. Global indices initially had to contend with a potential wider fall-out after the assassination of Iranian Major General Qassem Soleimani, before shaking off these concerns to hit record highs. Markets then lurched into negative territory as news of the coronavirus spreading across China and beyond took hold. For Japan, it was hoped that having experienced a slowdown in household spending in response to the October tax-hike and various weather-related disasters, the government's emergency fiscal stimulus package would help put a floor on growth. Combine this with an easing of overseas risks such as the US-China trade war, Brexit-related disruptions as well as improved data in China and other Asian trade bellweathers; and there were grounds for an optimistic outlook. However, all of this is currently put on hold as investors try to understand the magnitude of the impact of the coronavirus and how long it may last. Energy was the weakest sector over the month followed by utilities and financials. Only two sectors posted positive returns in January: real estate and health care.

Performance analysis

The fund outperformed its benchmark during January, aided by positive stock selection in consumer staples (Seven & I Holdings, Asahi Group Holdings), consumer discretionary (holding Suzuki rather than Honda or Nissan) and communication services (solid returns from the game software company Nexon). Stock selection detracted from performance within information technology and health care. Mitsui Fudosan was the largest contributor to performance in the month. The real estate company announced a rise in its net profit forecast due to the sale of shares in Oriental Land while the sector continues to perform well on the back of strong office rental rates. Shin-Etsu Chemical, the silicon wafer manufacturer, also performed well, announcing strong results with signs of improvement in their PVC business and solid wafer numbers. One of the fund's largest positions, Hitachi, detracted from performance over the month. The stock, along with other industrials, was weak in January and finished the month announcing operating profits and revised full-year guidance below market expectations. We believe the company will improve margins through improved governance, focusing on their core businesses and carving out any non-core operations and cutting costs.

Portfolio activity - overweightings & underweightings

There was little change in the fund over the month. We trimmed some stocks that have performed very strongly over the last year, such as Bandai Namco, and continued to build our position in Rengo, the cardboard and packaging manufacturer.

Market outlook

Prior to the coronavirus, there were signs that global growth could be improving, with the US looking especially buoyant and business sentiment had broadly rebounded from last year's lows. News of the Phase-One trade deal between China and the US also helped. Now the outlook is more uncertain. Investors are only able to draw parallels with the previous big coronavirus epidemic to spread from China, SARS, in 2003. However, there are differences between what is unfolding now and what occurred in 2003. The coronavirus seems less deadly, but is also less easy to contain. And critically, China's share of the global economy is four times larger than it was in 2003. Japan, like all economies, will be impacted, but we believe the impact will be temporary and we expect that China will move to support their economy through emergency fiscal measure as and when required.

Portfolio strategy

As is indicated from the minimal activity in the portfolio, we have not changed our strategy in light of the coronavirus. The only changes we would look to make is to add to any of our stocks that are unduly punished by market fears. We continue to have a strong overweight in cyclical areas. We retain our overweight position in component and silicon wafer companies as they have yet to benefit fully from the investor expectation of the lift in volumes that the rise in semiconductor production equipment capex is implying. We remain underweight the classically "defensive" sectors where it continues to be a struggle to find quality companies trading at attractive valuations.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	24.03.2006
Launch date	22.11.2006
Share class currency	EUR
Compartment currency	JPY
ISIN	LU0248317363
Reference index	MSCI Japan Hedged to EUR
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	1.57%
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
Sam Perry
Serena Robinson

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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