Pictet - Emerging Markets Index - I dy 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%. The month started with expectations that the Fed will have to take a more aggressive stance with regards to interest rate hikes, only to be scaled back by month end. Political uncertainty around the Russia-Ukraine geopolitical tensions dominated newsflow and heightened market volatility, resulting in increased risk-off sentiment. The month ended with a full-fledged invasion of Ukraine. The Central Bank of Russia (CBR) was removed from SWIFT, resulting in significant depreciation of the ruble, an increase in Russian interest rates (to 20%), capital controls being implemented to prevent capital leaving Russia and a surge in Brent crude oil prices to reach over $100 a barrel, spurring increased inflationary pressure. Performance was led by Latin America through attractive valuations and benefitting from the commodity price rally while EM Asia and EMEA produced negative returns. Asian equities struggled following a significant increase in US inflation, causing a spike in treasury yields. The regulatory burden in China kept sentiment low as we saw new regulations impacting names like Alibaba and Meituan. Across the broader EM market, materials and industrials outperformed whilst healthcare and consumer discretionary lagged.

Performance analysis

The portfolio's performance was very close to that of its benchmark over the reporting period. The cumulative tracking error of the portfolio relative to the MSCI Emerging Markets Index was therefore small.

Portfolio activity - overweightings & underweightings

During the month, the total two-way turnover for the benchmark MSCI Emerging Markets Index was 1.61%, with some 18 additions, 13 deletions, and 328 other changes (number of outstanding shares, inclusion factors). The rebalancing, which took place as of the closing of 28 February 2022, created a two-way turnover of 1.18%, with 16 additions, 9 deletions and 318 other changes. For the period, the largest significant daily weight increases at the stock level were LG ENERGY SOLUTION and HAPVIDA PARTICIPACOES ON while the largest significant daily weight decreases at the stock level were NOTRE DAME INTERMED ON and AMERICA MOVIL L.

Market outlook

Sentiment is low following a challenging 2021, which is reflected in valuations, notably for China. However, the region remains geographically one of the highest growth areas as well as being at the forefront of themes such as digitalization, technology and environmental advances. Emerging equity market valuations look attractive, trading on a forward price earnings ratio of 11.6x, which equates to a discount of 33% to developed markets. However, events in Ukraine have changed not just emerging markets but global expectations and scenarios. Within emerging markets, commodity producing nations should stand to benefit what was even prior to the current crisis, an already a structurally strong commodity market. On the potential for inflation, this is likely to impact specific countries such as Turkey, where inflation risks were already high. Our original base case still stands for emerging market growth to comfortably outstrip that of developed markets over the medium term. Coronavirus complications still exist, but we still view this as transitory rather than derailing the investment case. We do not take any top-down currency views, but emerging market currencies remain very cheap relative to the dollar. Whilst volatility may appear daunting, it can provide for good opportunities to purchase solid investments, which have been unfairly swept up in broader market sell-offs.

Portfolio strategy

Our indexation methodology is geared towards building a portfolio that is as close as possible to a fully replicated portfolio, i.e. a portfolio that has the same number of stocks with the same weights as the benchmark. Whether the fund can fully replicate the index depends on cash in/outflows, the trading liquidity of individual stocks in the index, the minimum trade size compatible with reasonable transaction costs and round-lot constraints.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	19.02.2013
Launch date	19.02.2013
Share class currency	USD
Compartment currency	USD
ISIN	LU0883978354
Reference index	MSCI EM (USD)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	0.44%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.20%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Roland Riat
Jean-Michel Piuz

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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