

Pictet - Global Emerging Debt - P dm HKD

Risk and reward profile

Don't take unnecessary risks.
Read the Key Investor
Information Document.

Lower Risk			4	Higher Risk		
1	2	3		5	6	7
Typically lower rewards				Typically higher rewards		

Market review

The index returned -6.55% over the past month with the largest drivers of negative return unsurprisingly being Belarus, Russia and Ukraine. The material escalation we have seen in the Russia-Ukraine conflict has dominated the volatility in markets over the past month. The situation has been extremely fluid throughout February, and we ended the month with the tragic development of a full scale invasion by Russia. Following the drastic deterioration, the prices of safe haven assets, such as gold and US treasuries, rallied whilst equities sold off. Oil soared to above \$100 for the first time since 2014, with prices settling following the announcement that sanctions on Russia will not target oil and gas flows. US and European leaders have issued a number of sanctions against Russia (and Belarus for its involvement in the invasion of Ukraine), including sanctions on the Russian Central Bank freezing a large share of Russia's reserves. This led to the a plunge of the ruble and saw the Bank of Russia more than doubling its interest rate from 9.5% to 20%. Such a backdrop of geopolitical tensions brings fresh challenges for a global recovery that was already struggling with elevated price pressures and tightening monetary policy.

Performance analysis

The fund outperformed the benchmark during February. Hard currency positioning as well as off-benchmark positioning in local rates and currencies all contributed positively to performance. The largest positive contributors were net underweights in Russian and Belarusian external debt and Russian F while underweights in Turkish assets across external debt, local rates and FX markets also protected the portfolio. In the proxy rates space, the long-held short position in US treasuries continued to add to positive relative performance and reinforces conviction in the underlying view. The underweight to Kenyan USD debt and the overweight to Lebanese USD debt also added to excess returns. In the tier 1 space, underweights to Romania and the Philippines further increased gross relative returns. Detractors were Hungarian, Argentinian and Egyptian active hard currency positions, highlighting the challenging backdrop for the expression of long positions. The moderate underweight to South African local rates also detracted from net returns.

Portfolio activity - overweightings & underweightings

In light of the challenging backdrop for hard currency debt with sustained and elevated DM rates volatility a major contributor, the team maintained the cautious approach to portfolio construction that has also been exhibited in prior months. In benchmark countries, external debt positioning was fairly consistent during February. In the high-quality space, underweights in Romania and the Philippines dominated exposures while Chile, China, Indonesia and Kazakhstan also contributed to the net short risk position. Against this, relative valuations and supportive market technicals drove overweightings in Colombia and Hungary, respectively. In the higher yielding part of the universe, nuanced risks warranted a more balanced positioning across tier 3, albeit still with a net underweight - the largest contributor to this was the short to Turkish external credit. This view was also reflected via a short position in the Lira and Turkish local rates. On the more constructive side, long standing overweightings in Angola and Argentina reflected more attractive trade backdrop terms - in light of commodity market strength - along with reform progress and hopes of progress towards an IMF deal, respectively. The overweight in Egypt also contributed to long risk during the month but was trimmed as we reduced risk in reaction to developments in Ukraine as we neared month-end

Market outlook

Russia's invasion of Ukraine poses significant risks to a global economy already suffering from heightened inflationary pressures. As the military assault continues, we will look to monitor the impacts from a wide range of possible outcomes. Manufacturing PMI data from both the US and EU have indicated stronger growth; however, due to ongoing conflict, there is an expectation that growth could slow. The effect on EM economies is likely to vary depending on how the situation evolves, with alternate commodity exporters, such as Ecuador and Columbia, naturally expected to benefit from the move away from Russian assets. The expected food price increase due to supply disruptions from the conflict may result in some EM countries facing increasing inflationary pressures, particularly those that rely on Ukraine for grain imports. With monetary policy unlikely to be effective in combating inflation shocks, central banks that have been increasingly hawkish since the year began, may begin to scale back their monetary tightening plans. This delay could be a potential relief for EM economies that have battled with rising rates and increased inflation. As the conflict continues, economies are also increasingly facing the risk of stagflation as prices of goods surge and growth expectations contract. We continue to monitor the fast-evolving situation and look to position the portfolio accordingly.

Portfolio strategy

Naturally the bulk of the team's attention has been directed toward the rapidly evolving situation in Ukraine, with a view to understanding the ramifications for asset markets and the global economy. The complexity of the situation is such that uncertainty remains abundant. Our approach, however, has been to take a step back and identify areas where existing themes are likely to persist or even grow in relevance in light of recent developments. One such area is that of inflation, where the supply shock linked to Russian exclusion from global payment systems will feed into further price increases in key commodity markets going forward. This lead us to maintain and even increase the net duration underweight on the portfolio, along with a broad-based underweight to EM sovereign credit. Core positions remain the short in Turkish assets, with current developments adding impetus to this view. We also remain underweight to Kenya, El Salvador, Jamaica and Costa Rica, along with relative short positions in duration and cash terms in China, Romania, Brazil, Malaysia and the Philippines. Acknowledging the asymmetric implications of the far reaching economic ructions and the structural, commodity-led inflationary backdrop - we continue to express a more bullish stance in beneficiary countries. Angola, Argentina and Oman - as beneficiaries of the terms of trade shock - are held as overweights.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	11.04.2012
Launch date	11.04.2012
Share class currency	HKD
Compartment currency	USD
ISIN	LU0760711878
Reference index	JP Morgan EMBI Broad Diversified (HKD)
Min. investment horizon (year(s))	3

Fees

Ongoing charges (OCR)	1.38%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	1.10%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	3.00%

Management team

Mary-Therese Barton
Guido Chamorro
Robert Simpson

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

This marketing material is issued by the Fund Management Company, Pictet Asset Management (Europe) S.A., a company authorized and regulated by the Luxembourg regulator "Commission de Surveillance du Secteur Financier". It is neither directed to, nor intended for distribution or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. The information contained in this document is for information purposes only. It cannot be used as a basis for subscription and does not form part of a contract. The latest version of the fund's prospectus, Key Investor Information Document, annual and semi-annual reports must be read before investing. They are available in English and in the local language of each country where the compartment is registered, free of charge on www.assetmanagement.pictet or at Pictet Asset Management (Europe) S.A., 15 avenue J.F. Kennedy, L-1855 Luxembourg, or at the office of the Fund local agent, distributor or centralizing agent if any. In Switzerland, the representative agent is Pictet Asset Management S.A. and the paying agent is Banque Pictet & Cie S.A. Pictet Asset Management (Europe) S.A. has not taken any steps to ensure that the securities referred to in this document are suitable for any particular investor and this document is not to be relied upon in substitution for the exercise of independent judgment. Tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. Before making any investment decision, investors are recommended to ascertain if this investment is suitable for them in light of their financial knowledge and experience, investment goals and financial situation, or to obtain specific advice from an industry professional. Holdings do not represent the full portfolio. There is no guarantee that these securities will be held in the future and you should not assume that investment in the securities listed was, or will be profitable. Any reference to a ranking, a rating or an award provides no guarantee for future performance results and is not constant over time. For hedged share classes, only the compartment's consolidation currency is hedged into the share class currency. Foreign exchange exposure, resulting from assets in the portfolio which are not denominated in the consolidation currency, can remain. NAVs relating to dates on which shares are not issued or redeemed ("non-trading NAVs") in your country may be published here. They can only be used for statistical performance measurements and calculations or commission calculations and cannot under any circumstances be used as a basis for subscription or redemption orders. The published performance represents past data. Past performance may not be a reliable guide to future performance. There is no guarantee that the same yields will be obtained in the future. The value and income of any of your investments may fluctuate with market conditions and may lose some or all its value. The fund may be affected by changes in currency exchange rates, which can have an adverse effect on the value or income of the fund. Performance is shown based on the share class NAV per share (in the share class currency) with dividends reinvested (for distributing share classes), including actual ongoing charges, and excluding subscription/redemption fees and taxes borne by the investor. Inflation was not taken into account. As a subscription fee calculation example, if an investor invests EUR 1000 in a fund with a subscription fee of 5%, he will pay to his financial intermediary EUR 47.62 on his investment amount, resulting with a subscribed amount of EUR 952.38 in fund shares. In addition, potential account keeping costs (by your custodian) may reduce the performance. Indices do not include fees or operating expenses and you cannot invest in them.

Any index data referenced herein remains the property of the Data Vendor. Data Vendor Disclaimers are available on assetmanagement.pictet under "Resources" section.

No part of this material may be copied or redistributed without Pictet Asset Management prior written consent. ©2019 Pictet