

Pictet - EUR Short Mid-Term Bonds - I

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

Russia's invasion of Ukraine overshadowed what had already been an eventful month. It began with growing noises that central banks would be forced to embark upon a more aggressive tightening cycle than anticipated, particularly as inflation continued to surprise on the upside. The month ended with a risk-off move prompted by warnings and then the reality of Russia's invasion of Ukraine, which in turn triggered severe sanctions on Russia that have had an impact across asset classes. Equities were the worst performers, with US and European equities both falling around 3%; European bank shares lost over 9%. For the second month running, major DM credit indices fell, with losses shared among IG and HY, across EUR, GBP and USD. The prospect of higher inflation and hawkish central bank action hurt sovereign bonds although there was some relief towards the end of the month in the risk-off move. Periphery spreads widened and underperformed. Numerous commodities surged with oil moving above \$100/bbl for Brent and WTI while European natural gas, wheat and aluminium also increased sharply. Within European bond markets, short-dated bonds held up well compared to longer dated when looking at total returns; higher ratings were also more resilient. The German 2Y began and ended the month at -53 bps, but this masks a 30 bps spike up in the first week of February before steadily declining back.

Performance analysis

The fund underperformed on a relative basis against its 1-3Y European government bond benchmark. In absolute terms, returns were negative, in line with global credit and sovereign bond markets that had a difficult month. Our exposure to corporate bonds detracted as they were hit by rising government rates and widening credit spreads. Utilities and Technology & Electronics were the most resilient sectors, but Financials detracted, in particular, our exposure to EUR bonds of Swedish banks underperformed the most. At a single name level, Clearstream Bank was the biggest detractor as it announced that it would no longer accept payment settlement instructions in Russian domestic securities nor accept RUB as a settlement currency. Aside from Clearstream, there were no names with direct or indirect exposure to Russia or Ukraine. Within our allocation to government bonds, being underexposed to periphery countries, e.g. no Italian BTPs and underweight Spain, helped recover some performance relative to the benchmark.

Portfolio activity - overweightings & underweightings

The portfolio activity was moderate in February. Within government bonds, we added Germany 2024 bonds after the spike up in yields early in the month. We continue to maintain our underweight to Italian BTPs as we see very limited value here. Overall, government bond exposure stayed stable around 35%. On the corporate side, we mostly added to high quality EUR-denominated names, such as DNB Bank and Cloverie (an entity of Zurich Insurance), while we sold Walmart to reduce our exposure to USD corporates as well as Rabobank in EUR. The portfolio started the month underweight duration against the benchmark, but this was neutralised after the previously mentioned move up in yields. As geopolitical risks increased, we moved to a duration overweight into month-end. Duration increased from 1.5 to 2.1 during the month and the yield of the fund also rose from -0.15% to +0.12%.

Market outlook

At a macro level, the three main risks we are monitoring for 2022 are the geopolitical risks and associated sanctions on Russia, a China slowdown bleeding into global growth and the ongoing fallout of a higher inflationary backdrop. Russia's invasion is clearly at the forefront of investors' minds. While we don't have any Russian or Ukrainian exposure, we are monitoring the impact of the sanctions and what they can bring to the financial system in terms of counterparty risks; these are so far underappreciated by the market. If these risks escalated, they would undoubtedly lead to dovish central banks. However, at present they are trapped in a corner, with inflation remaining elevated but with growth at risk of slowing even before they start hiking. The ECB might have to find ways to dial down its recent hawkishness with war and sanctions on its doorstep. We still note many underlying credit market fragilities in weaker names, such as questionable fundamentals, elevated corporate leverage and the overall deterioration of credit quality, particularly in terms of IG indices. Differentiation between stronger and weaker ESG names is set to continue as the number of funds migrating to SFDR Article 8 and 9 is increasing.

Portfolio strategy

We continue to implement a two-pronged approach. We aim at optimising yield while effectively managing risk. We are selective in buying credit at this stage of the credit cycle in EUR- and non EUR-denominated bonds. Secondly, we aim at optimising the roll-down effect. Overall, we maintain a balanced view between corporate bonds and government and quasi government bonds. Based on news flows, we may adjust the country allocation and will continue to underweight those where we do not see any value.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	30.04.2003
Launch date	30.04.2003
Share class currency	EUR
Compartment currency	EUR
ISIN	LU0167154417
Reference index	JP Morgan EMU Government Bond Investment Grade 1-3 Years (EUR)
Min. investment horizon (year(s))	1

Fees

Ongoing charges (OCR)	0.31%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.10%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Jon Mawby
Mathieu Magnin
Charles-Antoine Bory

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