Monthly Manager Comments
28.02.2022

Pictet - Clean Energy - R 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

Equities ended the month sharply lower for a second time in a row after Russia’s invasion of Ukraine triggered severe Western sanctions, which include blocking Russian banks from the SWIFT global payments system. European equity markets suffered the most while the UK, Latin America, and Pacific Asia defied selling pressure and ending slightly higher. IT and communication stocks were the worst performing sectors after US tech giants reported mixed earnings results. Energy and material stocks ended higher as oil prices jumped 11 per cent following the Russian crisis while Defensive sectors, such as healthcare, staples and utilities, were flat. On the Clean Energy front, the Russian invasion brought the question of security of energy supply to the forefront given Europe's heavy dependence on Russian gas. In response, the European Union is reviewing its energy strategy, where an accelerated renewables build out, energy efficiency measures, heat pumps, and tapping alternative gas/LNG sources will be among the top priorities. With current events, the latest IPCC report publication risks being overlooked despite its alarming conclusion that the world is not decarbonizing fast enough and thus needs to drastically accelerate its actions and work on climate change adaptation measures to protect the 3.6bn people living in settings that are “highly vulnerable to climate change”.

Performance analysis

The strategy outperformed global equity markets during the month; as the Russian invasion raised the prospects for an accelerated renewables buildout, energy efficiency measures and transition towards electric vehicles. From a GICS sector point of view, utilities finished the month in strong positive territory, with IT holdings outperforming as well, while industrials underperformed and materials fared worse. From a segments perspective, Renewables holdings fared best followed by Enabling Infrastructure, Enabling Technologies and Smart Mobility, partially offset by Green Building and Efficient Manufacturing. Within Renewables, solar stocks led the charge as US regulatory uncertainty fears faded while European renewable operators outperformed strongly on increasing certainty that renewables will play a key role in the continent's road to energy independence. The Enabling Technology segment performance was driven by a number of strong company results; power semiconductors demand from electric vehicles partially offset by weaker results from a lithium manufacturer. Efficient manufacturing holdings detracted as overall strong revenues growth came with slightly weaker margins as inflation is being passed through. Green Building holdings suffered from their perceived interest rates exposure although the outlook and construction demand remains strong and backlogs increased sharply.

Portfolio activity - overweightings & underweightings

We did only minor shifts in the portfolio during the month. We continued building our position in European lighting manufacturer Signify with very attractive valuation and an improving growth outlook. We further increased the exposure to European renewables utility RWE due to its low valuation and good results. We financed these small additions by taking some profit in the power semiconductor manufacturer On Semiconductor after strong results.

Market outlook

The unfolding of the invasion of Ukraine is deeply troubling and increases the urgency to improve energy security. This has resulted in a stronger resolve within Europe to accelerate the energy transition. In the near term, the question is to what extent will Russia’s invasion undermine the global economic recovery. Some global industries will be directly affected, but it is the second-round effects on European inflation and consumer confidence that also need to be monitored. Nevertheless, despite near-term headwinds, such as supply chain bottlenecks and rising commodity costs, the underlying drivers for the energy transition for 2022 and beyond continue to be very constructive. Rapid technology innovation will allow even greater electrification of transport, buildings and factories while solar and wind will be the major sources of this new electricity supply. Increasing awareness, technological innovation and rapidly declining costs, together with legislation increasingly fighting air pollution and climate change, lead to multiple inflection points across this investment universe. The recent volatility and spikes in energy prices are likely to further incentivize energy efficiency solutions while demand for low-emission buildings and energy-efficient appliances is supported by tightening standards.

Portfolio strategy

The strategy continues to focus on investing in companies that have a strong market position in their respective industries and are able to yield pricing power and deliver profitable growth. We continue to focus on companies that have favourable cash flows relative to their market-implied valuation.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	14.05.2007
Launch date	14.05.2007
Share class currency	USD
Compartment currency	USD
ISIN	LU0280431049
Reference index	MSCI AC World (USD)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	2.70%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	2.30%
Max. conversion fee	2.00%
Max. subscription fee	3.00%
Max. redemption fee	1.00%

Management team

Xavier Chollet
Christian Roessing
Manuel Losa

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