

Pictet - Russian Equities - P USD

Risk and reward profile

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



Market review

The MSCI Russia 10/40 Index fell 9.8% in USD in January 2022, marking a ca. 20% decline in the market since the start of the current geopolitical crisis at the end of October 2021. The market remains up ca. 5% in USD on a trailing 1-year view. January saw heightened geopolitical tensions over Ukraine put downward pressure on Russian asset prices. It is our base case that diplomacy will prevail in the current crisis as the cost to both sides in either war or with the unintended consequences of energy sanctions is not in any side's interest. While the headlines read that Russia's security concerns have not been met by either the US or NATO, the diplomatic channels remain open and we believe this to be encouraging. Looking through the sell-off in equities, so far, that which has not been negatively impacted is the earnings and dividends for Russian stocks. In fact, in the export sector the earnings profile has improved as commodity prices globally remain high. Should one assume that diplomacy will prevail, then there is a lot to be encouraged by fundamentally, with excess dividend yields on offer across multiple sectors. Tensions on the boarder remain elevated, however, and a certain risk premium is likely to remain attached to the market until we see a clear resolution.

Performance analysis

The fund underperformed the index in January. Our positions in Kazakhstan were costly as the unrest seen in the country at the start of the month weighed on the equities. We remain committed to our positions there as the political risks in the country have subsided and fundamentals remain attractive. In Russia, the financials sector was harder hit than the exporters sector during the sell-off, partly because of the strong commodity environment, and our positions in Sberbank and VTB were underperformers. Similar to financials, the technology sector was also a relative underperformer and our underweight in Yandex was a relative positive contributor during the month.

Portfolio activity - overweightings & underweightings

The major portfolio change in January was rotating some capital in the fund out of state owned banks Sberbank and VTB and rotating this capital into the technology sector, and closing the underweight in Yandex. Our exposure to energy and materials remained stable during the period.

Market outlook

Geopolitical risks returned at the end of 2021 with Russian troops building up on the Ukrainian border and triggered a part reversal in the strong performance of the Russian equity market in 2021. While the situation remains uncertain, our base case is that a diplomatic solution will be found. We have long argued that the way to effectively sanction Russia is to target energy exports. Stopping gas flows or oil exports is a lose-lose situation for the West, especially given the already fragile global energy markets. Should tensions cool and the focus return to fundamentals, there is a lot to be encouraged by. The Russian economy is in a stable shape. FX reserves are high and leverage is low. Prudent fiscal and monetary fiscal policy have been the hallmark of economic policies in recent years have removed the high transmission impact from oil prices to the ruble. We expect the currency to remain stable in 2022. A stable ruble and falling deposit rates have seen a return of domestic investors and the IPO market has come to life. We would like to see that continue in 2022. And finally valuations appear to be extremely cheap, with value on offer across multiple sectors, domestic and exporter alike. As we come to the end of January 2022, the markets valuations are 6x PE and 10% dividend yield, which is at the extremity of historical ranges, especially on a dividend yield basis.

Portfolio strategy

Our investment philosophy is a value philosophy, with the belief that the price paid for an asset is the ultimate determinant of investment success. We focus acutely on free cash flow generation. It has always been somewhat of a cliché to say that Russia is cheap on price-to-earnings. What is different today is the high level of dividend yields. Russian firms remain cash generative, have considerably deleveraged and are paying out large portions of their earnings. We believe the sustainability of these payouts are underappreciated by the market and the power of dividend compounding will play a central role in future returns. Whilst over the short term, we expect the market to remain volatile as the geopolitical risks remain present. We believe that the Russian investment landscape will prove to be fertile ground for our value-based stock picking approach in the year ahead. Russian assets remain supported by strong fundamental earnings power, yet a high-risk premium remains factored in. Taking all of this into account, along with the resulting macro backdrop, we have a positive outlook for Russian asset prices over the next 12-24 months.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	11.01.2008
Launch date	11.01.2008
Share class currency	USD
Compartment currency	USD
ISIN	LU0338482267
Reference index	MSCI Russia 10/40 (USD)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	1.78%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	1.40%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	3.00%

Management team

Hugo Bain
Christopher Bannon

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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