

Pictet - SmartCity - P EUR

Risk and reward profile

Don't take unnecessary risks.
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 Information Document.



Market review

February saw large stock price swings in the broader indices on an almost daily basis. Overall, the MSCI All Country World Index continued its downward path and lost 2.6% (in USD) during the period. The reasons were manifold. In the US, January inflation data came in higher than expected, with core inflation at its highest since August 1982. This has increased pressure on the Federal Reserve to raise interest rates at its March meeting, dampening the outlook for growth stocks. Secondly, companies started to report their quarterly and full year results. While net profit margins have remained at near-record levels, companies continued to warn about margin headwinds from wage inflation and supply chain pressures. Towards the end of the month, the focus shifted to geopolitics in Europe. The news of the Russian invasion of Ukraine drove markets down. However, at the end of the month, the markets stabilized and slightly rebounded. On top of the human tragedy, the full impact of the war on the financial markets remains to be uncovered over the coming weeks and months. Energy and Materials were the only two sectors posting positive returns. Elevated oil and gas prices continue to be a tailwind to the energy sector, further fuelled by fears of supply disruptions due to the Russia-Ukraine conflict, with a similar logic applying to many parts of the Materials sector, such as metals & mining.

Performance analysis

The SmartCity strategy underperformed global equities during the month of February. This result was driven by all three segments. Within Building the City, home improvement retailers Lowe's and Home Depot were the main negative contributors. While both companies' results and outlook for 2022 did not reveal any major surprises, market participants were focused on the short-term risks of supply chain pressures and commodity price increases, which could negatively impact gross margins. Secondly, as the pandemic restrictions fade and people start spending more time outside, the focus on home refurbishment could abate. On the positive side, home prices, which are a key driver for the sector, continue to reach new highs. The business models of these companies is highly attractive, as proven by a long history of sustainable value creation. As the fundamental drivers behind them haven't changed, we remain confident in their long-term opportunity. Within Running the City, our result was negatively impacted by our holding in PayPal. Shares sold off because the company's revenue growth guidance came in below market expectations. It projected a slowdown in active user growth post-pandemic and communicated a strategic shift towards focusing on increasing user engagement over mere user growth, which came as a negative surprise to the market.

Portfolio activity - overweightings & underweightings

During the month of February, we did not add any new positions to the portfolio while we exited two holdings. The first company was a benefits provider in the healthcare space within the Intelligent Workplace subsegment. We gradually exited the name as the stock price benefited from a positive correlation with expectations for interest rate increases. This was a good opportunity for us as we began to have some fundamental worries around an intensifying competitive landscape and political uncertainty with potential legislation negatively impacting the sector. The second exit was within the Intelligent Buildings subsegment. We had invested in a company that manufactures and sells building glass products equipped with innovative technology. Its intellectual property concerns a nanofilm that is placed on the window screen. It is able to taint windows, rendering window blinds obsolete, and project picture and film onto the glass. While the sales and production ramp up were progressing smoothly, accounting issues cast a shadow of doubt on the equity story. After engaging with the company for several months, we divested as the governance risks far outweighed the potential for the product.

Market outlook

The secular outlook for the three building blocks of our SmartCity strategy remains highly attractive. Cities around the globe have recognized the need to invest in their aging infrastructure and deploy smarter solutions and technologies to improve their citizens' quality of life. The Covid-19 pandemic has accelerated many trends, such as the adoption of digital solutions in almost all areas of our daily lives, by several years and will provide a tailwind for years to come. From a shorter-term perspective, attention has shifted to geopolitics and the consequences of the current conflict between Russia and Ukraine on the financial markets. With the outcome impossible to predict reliably, we think there will always be a central role to play for companies embracing the opportunities of and providing sustainable solutions to the challenges of urbanization. Another worry is the impact of inflation on company margins, already present before, but certainly exacerbated by the war in Ukraine. Many of our holdings are in a strong - sometimes contractual, sometimes factual - position to pass on higher costs to their customers. In this environment, our strategy remains unchanged. We try to identify long-term winners in their respective fields that we think will fare well across economic and market cycles and increase our respective stakes in those companies if and when opportunities arise.

Portfolio strategy

Our goal is to gain exposure to companies that stand to benefit most from their ability to provide solutions to the meaningful challenges posed by rapid urbanization as well as changing demographics and consumer lifestyles. In light of fast-growing populations, cities around the world will have to undertake investments to protect human well-being and promote environmental sustainability. We find companies across a wide variety of sectors that make cities smarter, i.e. more efficient, sustainable, safer or better adapted to their citizens' needs. The investment strategy is unconstrained across geographies, market capitalizations or sectors.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	12.05.2010
Launch date	12.05.2010
Share class currency	EUR
Compartment currency	EUR
ISIN	LU0503634221
Reference index	MSCI AC World (EUR)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	1.98%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	1.60%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	3.00%

Management team

Ivo Weinoehrl
Andreas Kringlen
Benjamin Lerner

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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