PICTET
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Asset Management

Monthly Manager Comments
28.02.2022

Pictet - Quest Emerging Sustainable Equities - I 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

Markets were in turmoil towards the end of February following Russia's invasion of Ukraine, which triggered severe sanctions from Western countries, including blocking Russian banks from the Swift global payments system. Investors' focus quickly shifted from the implications of hawkish central banks earlier in the month to geopolitical tensions, impacts of higher commodity prices, worsening sentiment, and dampening growth and rate hike expectations. Developed Markets equities declined 2.5 per cent in the month. Within DM, UK equities were up slightly, US equities fell 3.0 per cent while Europe ex-UK was hit the hardest. Emerging Markets equities fell 3.0 per cent with Russian equities collapsing and becoming untradeable by the end of the month. Latin American equities defied the broader selling and ended the month higher. Commodities rallied led by sharply higher oil and natural gas prices. Most markets outside of East Europe, China and India performed strongly. Industrials, Materials, and Staples were the best performing sectors. Energy was the worst performer despite higher oil prices due to Russian exposure. Vale, Al Rajhi Bank, Impala Platinum, Gold Fields and Grupo Mexico were the biggest contributors to benchmark performance. Tencent, Taiwan Semi, Meituan, Gazprom and Sberbank were the main detractors.

Performance analysis

The fund performed ahead of the reference benchmark MSCI Emerging Markets in February. In terms of sectors, the biggest positive contributors to active performance were the underweight in Energy stocks and the stock selection in Real Estate, IT, and Consumer Staples. The detractors to performance were selection in Financials and underweight exposure to Materials and Industrials. From a country perspective, stock selection in China contributed strongly. In this we benefited by the prudential reduction of Russia exposure, implemented in January, rebalancing offsetting it mainly with China. Underweights in Saudi Arabia and Brazil and selection in Korea were some of the main detractors. At a single stock level, overweight positions in Financials, such as PICC Property & Casualty, renewables name Xinyi Solar, Walmart De Mexico and not investing in Gazprom, Lukoil and Meituan, were the biggest positive contributors to fund performance. On the negative side, overweights in Sberbank, Polyus, Mobile Telesystems, and Richter Gedeon and not investing in Vale were among the biggest detractors. Within our proprietary 4P style-framework, Protection and Price contributed positively.

Portfolio activity - overweightings & underweightings

At the end of February, the biggest overweight sectors in the portfolio were IT, Consumer Staples, Real Estate and Health Care. Major underweights are Consumer Discretionary, Energy, Materials and Industrials. Region-wise, Taiwan, Malaysia, and Mexico are the largest overweight country allocations. Saudi Arabia, Brazil and Korea are among the main underweights. The fund remains largely neutral in its exposure to China. During the month, the strategy reduced further exposure to Russian equities, selling remaining positions on account of the conflict in Ukraine after trimming down exposure in the previous month. Cathay Financial, Asustek, ICBC, Malayan Banking, Bank of China and China Overseas Land & Invest were among the largest active weights in the fund at the end of the month. Meituan, Reliance, Vale, SK Hynix and HDFC, JD.com are among the largest underweights. We continue to focus on global players with earnings quality and resilience, as such the fund remains well diversified in terms of sectors and markets, with a focus on quality, sustainable growth and value. Our exposures continue to be driven by a bottom-up stock selection approach, using the proprietary 4P framework and the sustainability criteria.

Market outlook

Markets are likely to remain volatile as long as the Russia/ Ukraine geopolitical risks continue to be elevated. While the direct impact of the crisis on corporate earnings are likely to be limited, indirect risks appear more substantial through higher and persistent inflationary pressures, dampening economic growth and confidence, contagion effects of sanctions, global supply-chains and trade disruptions and a risk of policy mistakes. US growth will be less adversely impacted, but the risks to European economies are higher given proximity, energy dependencies, and financial linkages to the conflict region. EM countries geared to higher commodity prices might see some respite while net commodity importers will feel the impact of higher costs. Russia will be dropped from EM benchmarks as the market becomes un-investable. The crisis is also likely to see a dovish reassessment of monetary policy by central banks to various degrees and more sharply in the Eurozone. In this context, quality and defensive stocks with strong pricing power be able to pass on higher costs and those less likely to be impacted should economic growth slows down sharply are a better refuge. The US is more attractive vs. Europe and within Europe, the UK and Swiss equities are better positioned we believe. In EM, China continues to look attractive given the accommodative monetary policy stance and valuations.

Portfolio strategy

The fund aims to capture the superior potential of firms that are financially robust and integrate sustainable development into their business models. To achieve this objective, the investment team implements a proprietary model based on financial and extra-financial criteria to identify attractive investment opportunities. Our portfolio companies are characterised by high and stable profitability, healthy balance sheets, attractive valuations and an ability to generate attractive returns without taking undue risk. Portfolio companies also demonstrate a lower carbon footprint, fewer controversies and stronger corporate governance.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	30.03.2012
Launch date	30.03.2012
Share class currency	USD
Compartment currency	USD
ISIN	LU0725973548
Reference index	MSCI EM (USD)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	1.29%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.80%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Laurent Nguyen

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