PICTET
Asset Management

Monthly Manager Comments
28.02.2022

Pictet - Emerging Corporate Bonds - P 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

Emerging corporate bonds market returned -4.8% in February 2022, as represented by the J.P.Morgan CEMBI Broad Diversified Index. EM corporate spread ended the month +87 bps wider during the month. 5-year US treasury yield ended the month 11 bps higher. EM corporate bond issuance came in at USD 25bn in February and remained below the historical average (USD 37bn). The regional mix was split between Asia (at USD 17bn ~ 68%) followed by the Middle East (at USD 4bn ~16%) and Latin America (at USD 3bn ~13%). The rating breakdown at IG:HY was 80%:20% in February. **Data source: J.P.Morgan.

Performance analysis

The fund outperformed its benchmark during February. In term of market performance for the month, the investment-grade segment outperformed the high-yield grade segment, and in terms of region, the Middle East was the outperformer on a relative basis at -1.4%, as all the regions posted negative returns.In terms of country, our overweight in Ukraine and underweight in China real estate continued to be the biggest performance detractors for the month. More specifically, Ukraine assets strongly underperformed given the outbreak of the crisis, leading to bonds being heavily marked down and liquidity vanishing. In China, real estate saw no respite despite being cautiously positioned while TMT continue to detract, driven both by regulatory challenges and the rates selloff. Our underweights in higher-rated countries such as Taiwan, Qatar and South Korea contributed positively to performance. This ties in with our curve positioning and cautious stance on duration, in particular the long-end of the curve, which has been a positive contributor to the fund.

Portfolio activity - overweightings & underweightings

During the month, we continued what we started at the beginning of the year by reducing risks further across all regions focused on outperformers and issuers in caught in idiosyncratic situations where we have lower convictions. The main drivers of risk reduction were China properties, given lack of material support from the authorities, Ukraine via further reduction in corporates such as Metinvest and MHP. During the month, we increased our hedge in Russia to protect the portfolio, which mitigated the negative impact of the Ukraine/Russia assets performance as the worst case of our scenarios came true. We took the Russia hedge out on concerns of operational challenges to settle and replaced it with other credit hedges via Turkey and indices. In Asia, we trimmed our overweight to India. In Latin America, we also reduced our overweight to Brazil and our exposure to Mexico utilities. Overall portfolio's active risk (measured by duration times spread) dropped compared month over month. As of the end of February, the main overweights in terms of risk by country are in Mexico, Chile and India. At a sector level, the biggest overweights are in utilities, oil & gas, and financial.

Market outlook

Our outlook on the risk backdrop remains cautious given the challenges faced by central banks with regards to inflation, which is further exacerbated by increasing commodities and energy prices, not to mention the tightening impact that financial conditions will have on credit spreads. We have just entered the phase of stimulus withdrawal from both monetary and fiscal perspective over concerns of uncontrolled inflation. With a first few signs of a slowdown in economic activity, central banks, led by the Fed, are now in an even more difficult spot. We think they will stay on course for now and remain hawkish as there is a lack of material evidence from the economic data to change direction. This remains a challenging environment for fixed-income assets and we expect markets to remain volatile with higher risk premium to be repriced. We continue to think, as a main theme, that short-dated high-yield bonds will fare best in this environment, and so credit selection remains the centre of our focus.

Source: Pictet Asset Management

Portfolio strategy

We continue to favour more balance in the portfolio going forward with a tilt toward HY vs IG given the macro backdrop described in the outlook as HY offers more spread cushion especially in the short end of the curve. However, we remain more selective than ever before and we prefer to run lower risks levels overall in the portfolio despite seeing attractive opportunities from spreads widening. Bottom-up selection remains our key focus in line with our investment philosophy. In this environment we will look for 1) issuers that offer good carry with solid/enhancing fundamentals 2) macro / sovereign / sector-led valuation opportunities with spread tightening potential, supported by bottom up fundamental conviction.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	26.11.2012
Launch date	26.11.2012
Share class currency	USD
Compartment currency	USD
ISIN	LU0844696459
Reference index	JP Morgan CEMBI Broad Diversified (USD)
Min. investment horizon (year(s))	3

Fees

Ongoing charges (OCR)	1.80%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	1.50%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	3.00%

Management team

Alain Nsiona Defise
Luke Chua

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.