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Asset Management

Pictet TR - Mandarin - 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

Global equities fell 2.7% in February as the Ukraine crisis triggered risk-off sentiment. Commodity prices jumped on concerns about supply constraints fueling stagflation fears while demand for safe havens pushed gold higher. With the current geopolitical tensions expected to weigh on global growth, investors have lowered the expectation of the aggressiveness of the rate-hikes, triggering a fall in US yields, which ended February at 1.83%. China dropped 3.9% as regulatory tightening refused to die down in China, with internet companies such as Tencent, Alibaba and Meituan facing tougher regulations. The Chinese property market remains troubled, with February sales at a nearly 6-year low. During China’s annual National People’s Congress (NPC) that started on March 5th, China announced an above-consensus GDP target at 5.5% in 2022. The headline deficit target at 2.8% looks unexciting, yet reading below the surface, the augmented fiscal deficit expands 2%, supported by disposal of leftover funds. Meanwhile, the government would continue to focus on financial risk containment, rational credit growth, and stable leverage, with policy support largely via tax cuts.

Performance analysis

The fund declined slightly in February amidst regulatory worries and broader sell-off in global equities but mitigated downside risk relative to its investment universe. The largest detractor from returns this month from a sector perspective was Communication Services (-0.6% gross of fees), led by our long holdings in Tencent and NetEase as sentiment on the names came under pressure on concerns of further regulatory measures. NetEase's earnings results later in the month helped to recover some of the negative contribution as the company posted a solid print and investor enthusiasm for its overseas expansion. Information Technology also detracted (-0.4%), driven by net long exposure to semiconductors that was only partially offset by the positive contribution from shorts in tech hardware equipment names. While the government's new policy limiting service fees for delivery companies weighed on e-commerce longs within our Consumer Discretionary exposure, these were offset by gains in autos and sportswear, leading to a neutral contribution from the sector overall. On the positive side, our net short exposure to Financials contributed 0.2%. Longs in Industrials and Staples also added to returns (+0.2% and +0.1%, respectively), led by EV supply chain names and milk producers, respectively. Index hedges also helped to mitigate the downside given the overall market sell-off.

Portfolio activity - overweightings & underweightings

We maintained our defensive positioning during the month, finishing with slightly lower gross and net exposures relative to the end of January: gross exposure was at 77% and net exposure fell to 15% at the end of February. The reduction in the net long exposure was driven by the exit out of our long position in Tencent and partial reduction of our NetEase position size to ~3%. This brought the net exposure to Communication services lower by 5% to 3% net long. We also reduced our Consumer Discretionary net long exposure to ~10% by further reducing our net long in EVs and brought our IT net long to 1% by reducing semiconductor longs and adding to solar glass shorts that we believe are trading at unjustified valuations. On the other hand, the largest increase in net exposure was in Consumer Staples, bringing it to 3%, focusing on longs with higher earnings visibility. The reduction in our exposure in IT has also helped to reduce the portfolio's net long exposure in Taiwan by 1.5% to 1.5% net long.

Market outlook

Sentiment remains fragile in the short term as market participants continued to monitor the West’s sanctions on Russian equities and global commodities. Global supply chains are already strained and fragile, and a prolonged crisis will have consequences beyond oil and gas supply. Liquidity and ESG issues could become the key focus of market participants. In China, the NPC helped address unanswered questions and anchor market expectations to some extent, but there is no sign of any relaxation of stress at the China property level. The focus is on supporting industrial sectors via VAT tax cuts without pick-up in leverage. We view this as a high-quality path though it may take time to show results. The Omicron outbreak continues in multiple locations in China and the government is well aware of the economic costs of the current 'dynamic zero-Covid' approach. China’s eventual pivot towards a more ”living with Covid” strategy and the impact of an exit wave is worth watching in late 2022.

Portfolio strategy

We watch for less aggressive pricing of the Fed on risks to growth stocks. We continue to have a slightly different view from the consensus and argue for lower inflation and growth globally toward the second half of 2022. That said, global investors may raise the risk premium on China and Taiwan investments as a result of Russia's actions given the potential read across. We stay patient as near-term risks play out and wait for a better entry point, especially for the distressed growth stocks in China.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	01.10.2010
Launch date	01.10.2010
Share class currency	USD
Compartment currency	USD
ISIN	LU0496443457
Reference index	MSCI Golden Dragon (USD)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	1.49%
Performance fee (excluded from OCR)	0.2 > LIBOR USD Overnight, High watermark
Management fee (included in OCR)	1.10%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Lan Wang Simond

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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