Oriflex BP Regeling
Oriflex Emerging Markets
Stichting Pensioenfonds Atos Origin
Eerste Kwartaal 2022

BLACKROCK

Investment Review

The fund underperformed its benchmark over the quarter.

Activity

MSCI EM dropped 7.0% in 1Q22, underperforming DM (-5.0%) marking the third consecutive quarter of negative returns for EM Equities. Among regions, EM LatAm was the standout performer (+27.3%) in the quarter, offset by negative returns by EM EMEA (-13.8%) with EM Asia down 8.0%.
EM equities slumped to the lowest in 21 months, as markets priced in geopolitical and government activism risk within EM and higher inflation on the back of surging commodity prices, leading to higher US rates and recession risk. Chinese internet companies led the fall amid weakening sentiment over sustained regulatory pressure on the sector. Around mid-March, MSCI EM pared some losses as China's state council signaled efforts to keep its stock market stable and policy support to improve growth.

MSCI EM Asia lagged with China the biggest detractor. China was the worst performing market during the quarter lead down by a combination of fears of further Covid lockdowns harming economic growth as well as ongoing regulatory and geopolitical risks. Markets priced in slower tech demand from higher inflation on the back of the Russia-Ukraine conflict and resurgence of COVID-19 in China leading to lockdown measures. ASEAN markets were the standout positive especially Indonesia. Indonesian equities continue to rally and delivered positive return for the fourth consecutive month. Indonesia is a big beneficiary of the ongoing commodity supercycle (exporter of coal, CPO, metals), which is transforming its balance of payments in another record current account surplus in 2022 (potentially highest since 2002).

LatAm equities were up 27.3% in the quarter, by far the standout region. Brazil, Colombia and Peru lead the way all returning c30%. Commodity prices and the highest interest rate among EMs are possibly benefiting both currency and economic activity, particularly the trade balance. On local news, politics dominated the agenda, with legislative and primaries elections in Colombia, impeachment rejection in Peru and new constitution moving forward in Chile. None of this was enough to offset the stronger macro factors.

MSCI EMEA fell 13.8% in Q1 with a wide spread of returns. Russia's invasion of Ukraine and the massive wave of sanctions from the US/EU dominated the headlines as commodity prices rose and bond yields jumped. MSCI and FTSE expelled Russia from their indices. UAE (+21.4%), Qatar (+19.9%) outperformed Saudi (+17.6%) and Egypt (-23.4%) in Q1. Brent crude rose US$5.77 to US$106.6/bbl. Outperformance in MENA has continued as Brent Crude prices have remained above the $100/bbl level. South Africa rallied 20.0% in Q1 as the ZAR strengthened to 14.61, while R214 yields dropped 4bps to 10.55%. The story in March has centered on the ZAR as it now threatens to break below R14.50 as terms of trade hit record highs in early March.

Performance & Positioning

The BlackRock Emerging Markets Fund returned -14.4% in 1Q22, underperforming its benchmark, the MSCI Emerging Markets ex Korea, ex Taiwan Index, which returned -3.9% (in GBP).

Stock selection and an overweight allocation in Russia drove most of the loss over the quarter. Our holdings in Russia comprised of Lukoil, TCS, Surgutneftegaz, Sberbank and Fix Price Group which were all top detractors over the quarter, as the stock prices dropped drastically in late February on the back of the Russian invasion of Ukraine. These holdings proceeded to be market down to nominal values in early March, sparking further losses. Our holding in Kazakh fintech company Kaspi also detracted as investors applied a higher risk premium to the wider region.

Overweight positioning in Latin America was the top contributor to returns, in particular our overweight in both Brazil and Peru, two of the best performing markets in EM over the quarter. Overweight in Brazilian stock exchange, B3, was a top contributor as the stock rallied on the back of increased Brazilian equity market issuance over the quarter. Holdings in consumer stock Assai and health care insurer Intermedica also contributed. In Peru our holding in financial Credicorp was a top contributor.

Over the quarter we added to China, reducing our underweight. We have been consolidating China internet, notably reducing exposure in real estate platform Beke (weaker than expected property activity, despite an influx of liquidity into the sector), ecommerce player JD.com (deteriorating core business profitability), and Meituan. On the other hand, we have continued to close our Alibaba underweight given cheap valuations and core business resiliency. We also added defensive exposure in consumer staples such as Kweichou Moutai. In terms of our reopening plays we added back some Yum China which looks attractively priced while exiting Macau gaming name, SJM, due to a weaker balance sheet following refinancing.

We also added defensive names more broadly, initiating new positions in consumer staples name FEMSA (Mexico) where we believe high food inflation should be beneficial to top line growth and potentially margins. We added to Saudi Telecom which also served to close our underweight in the Middle East which will likely benefit from a continuing tightening of sanctions on Russia.

Over the quarter we cut our Energy and Materials exposure from overweight to neutral. Energy exposure was largely driven by the Russian positions. We continued to sell down ENN due to concerns around higher natural gas prices. We trimmed our position China Moly due to an ongoing dispute with the Democratic Republic of the Congo government over royalties.

The Fund ended the period overweight Mexico and Peru, while being underweight India, China and Indonesia. Within sectors we are overweight cyclical value, particularly financials, and industrials. We are underweight consumer staples and consumer discretionary. We are broadly neutral energy and materials as well as healthcare and technology.

Omvang fonds

Waarde begin van de periode	€2,775,060
Waarde eind van de periode	€2,577,722

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-3.89%	-3.89%	6.84%	6.76%	10.49%
Benchmark	-6.99%	-6.99%	4.19%	5.19%	7.23%

Outlook

As we assess the ongoing events in Russia, we have laid out 5 key things we are monitoring with respect to the future direction of EM equities. These are: 1) Degree to which the conflict is localised; 2) reaction of commodity prices and financial flows to sanctions and counter-sanctions; 3) response by public sector authorities, including Central Banks; 4) China's position; and 5) unintended consequences.

While we have no crystal ball, several outcomes are possible, ranging from a sudden de-escalation to severe inflationary and growth shock waves, and globalization of the conflict. Some outcomes could lead to a global de-risking of assets, which could significantly raise volatilities across assets, potentially prompting a dangerous cascade of liquidations.

Sanctions: A) It appears that sanctions exclude energy and some other commodities (~80% of Russia's exports), although it is not clear how financial institutions will be able to segregate relationships. B) Some of the Russian banks might be excluded from a SWIFT ban, reducing the impact. C) Russia tried to prepare for such an eventuality, with over 20% of reserves now held in gold, and another 13% in Rmb while share of USD in reserves dropped to only 16%. D) Russia is not Iran or North Korea. Not only it is the top ten global economy but also a major supplier of commodities, with any interruption causing global inflationary shocks.

China's position and what they do next?: If and when China takes a position on Russia's actions this could be viewed in a wider context especially with regard to influencing Russia's position and or a raising of risk premiums with regard to tensions in the South China Sea. Thus far China has given only lukewarm support to its long term partnership with Russia, while still affirming its stance of respecting territorial borders and by implication the rules of the global order. Currently we believe President Xi's primary focus remains on the upcoming party congress and maintaining domestic stability. This is an important development to monitor.

Unintended consequences: As risk of energy shock rises, we need to be aware of countries most vulnerable to this (India) or to a reversal of capital outflows on global de-risking (India/Indonesia/Turkey/Brazil). Further spill-over risk on global beta should also be considered.

While traditionally moments like these are buying opportunities, predicting what is going to happen is impossible – we continue to assess metrics of extreme market valuation stress while attempting to risk manage exposures through this tricky period with the help of our risk team. Geographically, the main overweights are Brazil, Mexico and China and underweights Korea, Taiwan and India. Within sectors, the portfolios remain modestly overweight cyclical value, particularly industrials. We are selectively trimming financials with greater sensitivity to inflationary pressures or sanctions. The main underweights are clustered around defensive areas such as staples and healthcare, where valuations appear less compelling relative to other sectors and to history. Given some of the cross currents in markets, we have added some defensiveness in the fund over the last few months.