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

BLACKROCK

Investment Review

The fund underperformed its benchmark over the quarter.

Activity

In April, EM equities tumbled lower as markets priced in continued uncertainty from Russia-Ukraine dispute, an increasingly hawkish Fed, intensifying lockdowns in China, and dollar strength. Strength in equities at the start of the month was met with indication of more aggressive policy tightening from the Fed to curb inflation, pushing investors into a risk-off stance. During the month, Chinese equities came under pressure as fears of COVID-induced lockdowns in Shanghai intensified. In May, a sentiment-triggered rally in the second half of the month helped global equities recover from a shaky start as it ended the month on a flat note. The Federal Reserve delivered the first 50bp rate hike in 22 years and energy extended its rally amid attempts by the EU to ban Russian oil imports, while industrial metals fell on the persistence of COVID lockdowns in China. In June, investor scepticism on risk assets deepened as worse-than-expected US inflation, hovering at a 40-year high, roiled global assets. As the US recessionary fears intensified, equities in commodity-driven markets started to price in lower commodity prices and subsequently suffered significant losses. Global consumer demand weakness also led to a rout in the North Asian Technology heavy-weight markets.
During the second quarter, MSCI EM dropped 12.4%, outperforming DM (-16.6%) by 4.2%, marking the fourth consecutive quarter of negative returns for EM as well as the highest quarterly decline since Q1 2020. Among regions, EM Asia was the best performer (-9.0%) in the quarter, followed by EM EMEA (-17.1%) with EM LatAm down 21.9%.

MSCI EM Asia was the best of the EM regions with China leading the way. Korea and Taiwan were the biggest detractors after a torrid June. MSCI China (+3.4% in US$ terms) was the only positive market last quarter, outperforming EM by a whopping %. For onshore Chinese equities, abundant liquidity, continuous fiscal support on consumption, Shanghai reopening and relaxation of mobility restrictions at the country level, as well as more signals on possible reduction in US tariffs over China goods, have supported this rally. The macro mix includes a recurring current account surplus, room for stimulus and lower financing costs while inflation is contained. Weakness in commodity prices in recent weeks also helped to ease margin concerns for onshore investors.

MSCI Taiwan (US$) fell -19.8%, significantly underperforming MSCI EM by -7.4%, recording the highest monthly decline in June since COVID-19 hit in March 2020 amid fears of recession and a hawkish Fed. The Tech sector not only bore the brunt of a broader sell-off in Growth style, but also saw broadening order cuts from fabless vendors in the foundry industry. An increasing number of firms have recently toned down their outlook on consumer electronics demand amid rising inflation. Korea was down 20.9% on similar factors. ASEAN and India markets fell c 10-15% as the global sell off took no prisoners.

LatAm equities were down 21.9% in the quarter. Most of this was concentrated in June with the region down 17.0% as equities priced in depressed commodity prices in future anticipation of recession. MSCI LatAm had outperformed all regions during May (USD 8.3% m/m), recovering from the strong underperformance during the April. Colombia (-28.0%) and Peru (-30.2%) were the bottom 2 EM markets in Q2. In the case of Colombia, on 19th June the radical left-wing candidate Petro won the second round, likely explaining the underperformance relative to the region. Peru similarly continues to endure political volatility.

MSCI EMEA fell 17.1% in Q2 with a wide spread of returns. All markets were impacted by concerns over the impact of higher US rates and USD on funding positions. Those with weaker current account positions suffered the most. Czech and Qatar were the outperformers in the region with Hungary, Poland and South Africa the weakest.

Outflows from EM Equity funds continued in June, with net redemptions of $2.5bn (until 29th June) following $2.5bn of outflows in May.

Performance & Positioning

The BSF Emerging Markets Equity Strategies Fund outperformed its benchmark, the MSCI Emerging Markets Index, in Q2 2022. Over the quarter Taiwan, India and South Africa added to the relative performance, whereas Hungary, Brazil and Turkey detracted. From a sector lens, IT positions were the top contributor to relative performance, while consumer discretionary, energy and consumer staples detracted.

Two short LatAm positions were the top performers, as the region underperformed in Q2 2022 after leading the global table during the first quarter of the year. Equities priced in depressed commodity prices in future anticipation of recession and the strong market risk aversion from rising global interest rates weighed on shares of fast growing, high multiple, low margin e-commerce stocks globally. A short in a multinational mining company also contributed to the performance, as COVID disruptions, including labour shortage, impacted mining activities and negative headlines impacted the stock during the period.

On the other hand, Samsung Electronics, the South Korean tech giant, was the main detractor over the quarter, on the back of macro and sector headwind. The company temporarily halted new procurement orders and asked multiple suppliers to delay or reduce shipments of components due to swelling inventories and global inflation concerns. A short Chinese position was another detractor to the performance, as the name benefited from rising NEV demand and good product competitiveness. B3 (Brazil, Bolsa, Balcao), the Brazilian stock exchange, was another top detractor. Earlier in the quarter B3 suffered from the selloff following the announcement of an adjustment to the calculation of investors flow in the equity market, which was previously overstating foreign inflow figures. Despite May data showed +5.5% MoM improvement in equities ADTV, the YoY deceleration continued in June.

In aggregate we reduced exposure to both sides of the book during the quarter.

Omvang fonds

Waarde begin van de periode	€2,577,722
Waarde eind van de periode	€2,470,351

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-2.71%	-6.50%	6.59%	6.25%	10.43%
Benchmark	-2.29%	-9.12%	4.16%	4.26%	7.19%

Outlook

We view the current set up in EM as challenging. We are cautious on margins, PE multiples and tightening liquidity which we regard as a “nasty cocktail” playing out right now. We believe we are only part way through this adjustment especially with regard to margins and liquidity. As we track fundamentals, we perceive a step change from previous years where the macro, valuation and margin set up was broadly supportive. Margins look close to peak as demand from COVID has met constrained supply. More importantly EM hasn’t created that demand which has largely been a DM effect thus far. Multiples remain elevated from broad money creation and again wasn’t created in EM. There is also not much liquidity to take away in EM either. So in summary we view EM as vulnerable to getting caught in a fall out of repricing of risk globally. We believe once that period is over longer term fundamentals are better in EM (vs. DM) once that adjustment settles.

Our outlook for China remains relatively cautious but pragmatic given recent sharp relative underperformance and signs of policy easing. Given this we have been adding during sharp downturns essentially keeping a neutral to slight overweight position. We are seeing lockdowns in several cities in response to rapidly rising COVID cases in the country. Implications for China and the world are likely to be significant until China changes its COVID strategy, which we believe is still unlikely this year. It will be difficult for China to change course given their position to save lives at any cost while the low level of vaccine uptake persists amongst the over 80 population. We expect global demand to be impacted as a result.

In Latin America, we see attractive stock valuations in Brazil and believe the country will benefit from a cyclical rebound on a tactical basis. Medium term we note rising inflation and rates as well as troubling debt dynamics and political noise give us some caution. We have like Mexico based on the benign outcome of the mid term election and improving economic trends, including a rising share of exports to the U.S. Market is now expensive. In Peru, with the presidential election uncertainty now behind us we believe the stock market is attractive based on Peru’s improving trade position amid rising commodity prices and a weak currency.
For most funds our exposure to Russian local equities is 0% in line with fair valuation process. While local trading has resumed, the Moscow exchange has not yet communicated or issued plans to re-open for non-resident trading activity. Trading in Russian DRs is still suspended across major exchanges. Capital controls continue to limit the repatriation of ruble-denominated funds from Russia.

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Performance & Positioning (cont…)

On the long side, we selectively added to China, thanks to market sentiment boost and abating regulatory pressure. We initiated on Sunny Optical Technology, as the IT name shows a strong alpha story despite negative industry headwinds. We initiated on Hans Laser Technology and added to Shenzhen H&T to keep the A-share exposure relatively unchanged, after exiting Haier Smart Home to take profit on the back of strong relative performance. We added to the energy sector, initiating on the Brazilian name Ultrapar, as margins show expansion, liability management improves, and quality network growth continues, and initiating on Thai Oil, the largest oil refinery in Thailand, as we expect substantial improvement in cash generation from current strong gross rate multipliers. We reduced our exposure to China Petroleum, on the back of high valuations. Within financials, we initiated on OTP, the Hungarian bank, as the stock was back at COVID lows. We exited BB Seguridade, the Brazilian insurance company, given relative outperformance, and reduced our exposure in National Bank of Greece, one of the most rate sensitive banks, as the stock price reached a 5-year high in April, partly driven by the expectation that the stock would be included in the MSCI Index in the next review. Overall, our long exposure to financials decreased. We reduced our exposure to the real estate sector, exiting the Mexico-based Fibra Uno, to take profits. We also took profits reducing our exposure to the South African healthcare provider Mediclinic and the UAE-based export-focused nitrogen fertilizer platform Fertiglobe, while exiting the ASEAN-based industrial company Jardine Cycle & Carriage.

On the short side, within NEV names we trimmed a short in India while topping up shorts in selected Chinese names on the back of relative performance. We selectively trimmed some Asian and LatAm shorts to take profits.

Gross exposure sits at 170.0%, net exposure is 100.7%. Beta is 1.12. The Fund ended the period overweight Brazil, Korea and Argentina, while being most underweight Taiwan, China and India. At the sector level, we are overweight industrials, IT and real estate. We remain underweight communication services, consumer staples and utilities.

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