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

BLACKROCK

Investment Review

The fund outperformed its benchmark over the quarter.

Activity

MSCI EM dropped 11.6% in 3Q22, underperforming DM (-6.2%) by 5.4%, marking the fifth consecutive quarter of negative returns for EM. Among regions, EM Latam was the best performer (+3.6%) in the quarter, followed by EM EMEA (-5.3%) with EM Asia down 13.8%.

MSCI EM Asia was the worst of the EM regions dragged down by heavyweights China (-22.5%), Taiwan (-15.8%), and Korea (-18.5%). The overhang of uncertainty in China has baffled investors as they plan to “do nothing” ahead of the 20th Party Congress on October 16. Rate-sensitive Taiwan and Korea suffered from the pick-up in bond yields, while India (-6.4%) was hurt by a fresh bout of foreign outflows. ASEAN fared better than the broader region, partially padded by the post-pandemic tourism revival, though the Philippines (-17.6%) saw a particularly steep decline on a tumbling Peso.

LatAm equities were up 3.6% in the quarter. LatAm markets were the top performers, led by Argentina (+19.9%) and Brazil continued its run of performance (+8.5%). On the macro front, Brazil GDP grew faster than expected and while the presidential campaign is in full force market impact so far is limited. MSCI Mexico underperformed, down 5.4% as economic data was mixed and inflation continued its steady increase with CPI now at 8.6% (a 21-year high).

EMEA performance (-5.3%) was buoyed by performance of the Middle East markets Qatar (+3.1%) and UAE (-2.5%) which benefited from strong corporate earnings results and signs of fiscal and monetary easing across the region. Eastern Europe (Poland: -25.1%; Hungary: -15.0%; Czech Rep.: -19.2%) continues to grapple with the ongoing EU-Russia tensions. S. Africa (-12.3%) largely reflected the loss in the Rand over the quarter, while Turkey (+16.3%) stood out with yet another rate cut (100bp).

Performance & Positioning

The BSF Emerging Markets Equity Strategies Fund outperformed its benchmark, the MSCI Emerging Markets Index, in Q3 2022. Both long and short positioning contributed to relative alpha.

Over the quarter exposure in Argentina, China, and Taiwan contributed most to relative performance, while Saudi Arabia, Thailand, and India detracted. At the sector level consumer discretionary and, energy, and communication services benefitted the fund, whereas IT, industrials, and utilities positioning weighed on performance.

Within China, short auto positions remain a good source of alpha in 3Q22 amid missed foot traffic reports, new order misses, and still long wait times. We are happy to continue running the shorts as volume guidance remains aggressive despite intensifying competition and a weak consumption environment that is likely to persist. Off-benchmark exposure to Macau gaming names, Melco Resorts, and Winn Macau, also benefitted the fund given news that the region would preliminarily be allowed to resume digital visa issuance and group tours in November, which would be critical for full recovery. Argentine energy name YPF, was the period’s largest contributor moving along with the market, which rebounded from a weak June and was more recently supported by soy exports and a potentially stronger relationship with the US as the latter aims to diversify energy supplies away from the Russia scene. Elsewhere, UAE developer Emaar Properties and the Brazil’s stock exchange, B3, were both quarter’s top performers.

Tech weakness persisted as higher probability of global recession impacted global demand. Overweights to Sunny Optical (China), Hua Hong Semiconductor (China), and Samsung Electronics (Korea) all weighed on returns. On the other hand, short positions in a Brazilian electronic component manufacturer, a well as Thai power supply manufacturer hurt the fund as both names remained resilient in 3Q. Internet related holdings such as Alibaba and Baidu were also among the portfolio’s weaker points, as global investors reacted to the National People’s Congress and consumption is likely to remain challenged in light of zero covid policy.

Over the quarter we meaningfully reduce gross in China, reflecting our more cautious view on the country from a market beta lens. China equity market saw a visible pullback in July driven by the increasing mortgage delinquency risks in multiple cities and the delisting risks of ADRs amid US-China tension. We exited Ming Yang Smart Energy, the Chinese wind turbine manufacturer, and trimmed China Eastern Airline, to take profits after recent strong runs. Similarly, we covered some of our China auto shorts following a streak of good returns. On the other side, we’ve added to Poland by initiating positions in both PKO and KGHM, following significant market underperformance, while KGHM has also been weak relative to other copper related peers. We also added some defensiveness into the portfolio via South African miner, Anglogold, which supports a peaking/weakening US dollar, as well as some staples positions in LatAm (FEMSA – Mexico, and Ambev – Brazil).

Omvang fonds

Waarde begin van de periode	€2,470,351
Waarde eind van de periode	€2,160,434

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-8.42%	-14.37%	3.51%	4.39%	9.46%
Benchmark	-11.63%	-19.68%	-0.05%	1.71%	5.88%

Outlook

We continue to view the current set up in EM as challenging. We still believe global interest rates and profit margins are at odds with the need to tighten global liquidity to address excess money creation and the consequent inflation. While markets have adjusted somewhat, we maintain the view that further downside risk is likely from here. We maintain this view even as several lead indicators of cost push inflation look to have peaked out and are retracing. The larger issue in our view remains excess broad money creation which needs time to correct. 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, and that EM remains relatively well positioned. While inflation is certainly elevated, it’s still within the normal long-term range for many markets. On the other hand, tightening efforts have been much stronger than in past cycles, particularly in LatAm and Eastern Europe. Chile is a standout case with rates now at some of the highest observed levels over the past 25 years. Similarly, rates in Hungary have not been this high since 2003, and Colombia since 2008. This is a very different backdrop to DM, where central banks remain behind the curve and excess broad money creation has yet to be absorbed.

In line with our macro process, one area which is looking more interesting are the carry countries (those which fund growth by borrowing in USD) where interest rates have moved up a lot leaving EM yields looking attractive. This could prove a good set up for those equity markets once the US Dollar peaks. The US Dollar has continued to strengthen at odds with US fundamentals in our view.

Our outlook for China remains relatively cautious but pragmatic given relative underperformance and poor investor sentiment. Given this we have been adding during sharp downturns keeping a neutral to slight overweight position. We continue to wait for a shift in the country’s covid strategy, which we believe will be significant for the market, while it remains difficult for China to change course. We continue to find opportunities primarily in the Consumer Staples and Industrials sectors of the market.

In India we are caught between the short term and longer-term outlook for the market. Long term we see that many areas of the economy are increasingly digitized which is making daily life and economic activity more efficient. The capex cycle also appears to be a turning after a long slump with many corporates embarking on large capex plans. While the medium set up is strong the market looks cyclically challenged. We believe the central bank is behind the curve raising rates while the balance of payments deterioration is putting pressure on the currency.

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Performance & Positioning (cont…)

Gross exposure at the end of the period was 169.3%, with net at 99.5%. We are overweight Brazil, Poland, and Korea, while being most underweight Taiwan, China, and India. At the sector level, we are overweight real estate, energy, and consumer staples, while being most underweight utilities and communication services.

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Outlook (cont…)

We maintain a preference for South/South East Asia over North Asia, given distance from perceived geopolitical challenges. Structural issues remain, particularly as IT demand slows, putting pressure on margins for a collection tier 2 manufacturers. However, on a relative basis, Korea remains more attractive than Taiwan given an ability to trade with both China and the West. In Malaysia we note the economy is doing quite well in spite of some political challenges. It's a beneficiary of the IT supply chain as a scalable alternative to China and in some cases Taiwan. Additionally higher oil and commodity prices continue to have a positive impact. While inflation may be understated and liquidity remains a hurdle, the market looks relatively attractive at the margin.

In Latin America, Brazil is an economy which is holding up ok in spite of high interest rates. Real rates are positive in Brazil as the country is farthest along in the rate rising cycle, setting up a positive outlook for the equity market as rates peak out. The Q4 presidential election is creating a lot of market noise while we don't believe the outcome will change the short term economic trajectory of the country meaningfully. That said the structural political set up in Brazil does make it harder to address the country's fiscal fragilities longer term. We also like Mexico based on the benign politics and solid economic trends, including a rising share of exports to the U.S.

For most funds our exposure to Russian local equities is now 0% in line with fair valuation process. While local trading has resumed, non-resident trading activity has not. Trading in Russian DRs is still suspended across major exchanges. Capital controls continue to limit the repatriation of ruble-denominated funds from Russia.