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

BLACKROCK

Investment Review

The fund outperformed its benchmark over the quarter.

Activity

2022 marked the worst year for MSCI EM since the global financial crisis (-20.1%), underperforming MSCI DM (-18.1%) by 2.0%. EM equities rose (+9.7%) in Q4'22, marginally underperforming DM (+9.8%) by 0.1%, marking the 1st positive quarter after 6 negative quarters. EM equities and currencies were mixed as investors weighed the impact of the latest moves by China to reopen its economy on the outlook for global growth and inflation. As expected, the Fed hiked the rates by 50bps in December but with a hawkish surprise

MSCI EM Asia was the best of the EM regions dragged up by heavyweights China (13.5%), and Korea (18.1%). After a challenging October, there was a significant shift in optimism in China, specifically around signs of an earlier-than-expected easing of Covid policy, support for the property sector and stabilizing relations with the US. Taiwan had a volatile ride, matching EM index but only through a very strong November when it gained +22.2%. This was due to global cues such as a rebound in the SOX (Philadelphia Semiconductor Index), a weaker dollar, signs of rotation back into growth on expectations of peaking bond yields, and an easing of cross-strait tensions following the Xi-Biden meeting at the G-20.

On the other hand, India (+2.0%) lagged on selected outflows and concerns that the current Fed rate hike cycle may have higher rates and take longer than expected. ASEAN markets were in-line performers in general. Within Asia, sector returns told the same story: re-opening beneficiaries (Communications and Staples) outperformed but cyclicals (IT, Energy, and Industrials) lagged.

LatAm equities were up 5.7% in the quarter. LatAm's muted performance was driven by MSCI Brazil (+2.4% q/q). On the macro front, quarterly GDP came out at 1.6%q/q in 3Q, while consensus was expecting an expansion of 2.8%. Risk aversion was also due to uncertainties around the composition of the future government of Lula da Silva, his possible reforms and also the role of the opposition after a very polarized election, Mexico (+12.5%) beat the index, via strong top line trends and better-than-expected company margins drivng a large beat in 3Q, on the back of solid consumer fundamentals and a resilient manufacturing sector. Yet, on the political front, Congress rejected the electoral reform (as was widely expected) but approved some by-laws and a 20% minimum wage increase effective Jan 1, 2023.

EMEA performance (+5.8%) was buoyed by performance of Turkey (+63% qoq) and Poland (+48% qoq) For the first time since 2012, MSCI Turkey was the best-performing market in EMEA, up a remarkable 91%, completely reversing '21 (-31%) and '20 (-10%) losses. The key to the outperformance has been the real appreciation of the lira and the rise in earnings in USD terms. Poland gained from diminishing geopolitical risks as well as an extremely low base as the market fell by a cumulative 62% over the first 3Q.

Performance & Positioning

The BSF Emerging Markets Equity Strategies Fund outperformed its benchmark, the MSCI Emerging Markets Index, in Q4 2022. Both long and short positioning contributed to relative alpha.

Over the quarter, Chinese exposure was the primary driver to returns with positions from both the long and short sides of the book contributing. An overweight to Central European, specifically via Poland and Hungary, as well as off-benchmark exposure to Argentina also added to relative returns. Being net short Turkey and Thailand were the largest detractors. At the sector level, financials and consumer discretionary exposure performed well, whilst communication services and health positions detracted in aggregate.

China reopening remained a major theme into the new year, as the National Health Commission prepares to downgrade Covid-19 management in January, resulting in select quarantine and testing requirements being lifted, further easing mobility across the country. This in conjunction with a resumption of Macau visa issuances and an opening of the HK border should see travel and consumption demand improve. Exposure to gaming names, Wynn Macau and Melco, we the top performers over the period. Similarly, restaurant chain Haidilao, and insurer Prudential, also benefitted from the expected uptick in domestic and cross-border activity. Short Chinese auto positions continue to be a good source of alpha amid weaker EV retail sales and intensifying competition in the industry.

Elsewhere, Polish lender, Pekao, contributed, rallying off September lows and sentiment improved with less onerous regulatory cost outlook for the bank, whilst Polish copper miner KGHM also performed well as base metals rallied on China demand recovery expectations.

On the other hand, Turkish exposure across sector hurt performance as the domestic market remains strong despite triple-digit inflation. Other detractors were primarily stock specific in nature. Not holding Chinese internet and gaming company, Tencent, weighed on the portfolio as the stock performed well for a second consecutive month. The company saw a recovery in its ads business and investors are optimistic about the game licensing environment going forward. Short exposure to a Thai electrical component manufacturer hurt returns as strong earnings momentum worked against us. Indonesian conglomerate, Astra, was the period's largest relative detractor.

Omvang fonds

Waarde begin van de periode	€2,160,434
Waarde eind van de periode	€2,202,279

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	2.20%	-12.49%	1.07%	2.54%	9.48%
Benchmark	4.05%	-16.43%	-1.62%	0.64%	5.19%

Outlook

We continue to see a relatively challenging backdrop although are encouraged by the recent adjustments in rates, valuations/earnings and the USD . We still believe global interest rates need to rise from here and global liquidity will tighten somewhat as central banks fight to bring inflation down. While markets have adjusted somewhat in our view the risk of further downside risk is still there. 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 this adjustment is behind us longer term fundamentals are better in EM (vs DM). 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 are earlier in their tightening cycles 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 from its extremes. The US Dollar has continued to strengthen at odds with US fundamentals in our view.

In China, we have observed a meaningful shift in policy surrounding covid and reopening, as well as more supportive measures for the property market, both things that could pave the way for a cyclical upturn and greater investment across the economy. Whilst structural concerns remain, the change in market sentiment could drive market returns over the next couple quarters, while presenting short opportunities where positivity become overstretched. Sam continues to run a sizable underweight in China and has been selective in where risk is allocated.

In India we are also caught between the short term and longer-term outlook for the market, in reverse. 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 term set up is strong, the market looks cyclically challenged. Although the central bank has raised rates recently, we remain concerned about valuations and balance of payments deterioration.

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Performance & Positioning (cont…)

We actively traded in China over the quarter. Whilst staying materially underweight, we did add exposure in November, targeting beaten down ADRs on expectations of a more constructive near-term environment, driven by support for the property sector and easing covid protocols. We notably took advantage of market exuberance on China reopening expectations to take profits in select consumption and property related names on both sides following large stock price moves over the month. Shifts were more pronounced in the long book where we took down exposure to Macau gaming, ecommerce, and exited real estate platform, Beke. In Latin America, we exited Brazilian paper producer Suzano on the view that pulp prices have peaked. We also exited Mexican coke bottler FEMSA, following very strong performance relative to GEM.

Gross exposure at the end of the period was 159.5%, net exposure was 89.3%. The Fund ended the period overweight Brazil, Poland, and Hungary, while being most underweight Taiwan, India, and Turkey. At the sector level, we are overweight real estate, energy, and financials, while being most underweight communication services and materials.

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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.

Within LatAm, 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. Despite continued uncertainty around future fiscal policy and a potential delay in the downward path of interest rates, we still expect interest rates to shift from the current level of 13.75% over the next 12m.

We also like Mexico based on the benign politics and solid economic trends, including a rising share of exports to the U.S. However, on that latter point we remain cautious on how the market will behave if the US goes into a recession. Elsewhere, whilst we remain underweight, parts of the Chilean market have begun to pique our interest from a relative value lens as selling pressure across the market, led by pension reductions and diversification efforts from high-net-worth individuals, has led to decent assets trading at more attractive valuations.

(all performance data from MSCI, total return in USD).