Oriflex BP Regeling
Oriflex Emerging Markets
Stichting Pensioenfonds Atos Origin
Eerste Kwartaal 2023

BLACKROCK

Investment Review

The fund underperformed its benchmark over the quarter.

Activity

Overall, in Q1, MSCI EM rose 3.5% in 1Q23, marking the second consecutive quarter of positive returns for EM since mid-2021.

Emerging Market equities got off to a fast start in 2023, with the MSCI EM up +7.9% in January, underpinned by a near complete sentiment reversal for China equities and dollar weakening spurring sharp inflows into the asset class. EM markets saw the YTD rally fizzle out in February amid re-escalation of US-China tensions, rally in the broad dollar index and weaker commodity prices. Markets sold off in March as investors were preoccupied with the risk of financial contagion from the failure of regional US banks SVB and Signature and the merger of Credit Suisse and UBS, only to rally back over the latter part of the month as these fears dissipated and on positive news from China around internet sector and SOE reform.

Performance & Positioning

The BSF Emerging Markets Equity Strategies Fund outperformed its benchmark, the MSCI Emerging Markets Index, in Q1 2023. Long positioning drove returns, whereas short positions detracted.

China positioning drove returns with the long side contributing positively, whereas the shorts were aggregate detractors. From a sector lens, energy overweight and Industrials positioning posted the greatest relative performance for the fund. Elsewhere, underweight and short positioning in India did well as the overall market has been challenged following concerns around the Adani group. Select tech exposure to Taiwan also benefitted the Fund.

As for detractors, security selection in Brazil and short exposure to Thailand hurt performance over the period. Overweight in Brazilian health care service provider Hapvida continue to weigh on returns as the company performed poorly on the back of weak results. We do however maintain conviction in the stock and believe we will see earnings power restore over the medium term.

Re-opening trends continued into 1Q supporting China and EM more broadly. In China, we have seen signs of easing from the government on the previously communicated crackdown on the e-commerce sector, proving positive for the sector overall. Exposure to names like Baidu, the Chinese search engine, and Alibaba, the e-commerce giant, were two of the top contributors to performance over the period. The former delivered strong earnings results, particularly in its AI Cloud business in a rapidly growing cloud services market.

Elsewhere, Hungarian exposure through low-cost airline Wizz Air was the single biggest contributor over the period. The company has benefitted from a rebound in travel demand in a post-Covid environment while managing to maintain price discipline, hence avoiding margin dilution.

On the other hand, Brazilian exposure, primarily through stock selection across sectors, hurt performance. While real yields remain attractive in Brazil, the overall market has been under pressure due to political noise surrounding Lula's statements around fiscal spending. Not holding Chinese internet and gaming company, Tencent, also weighed on the portfolio as the stock continued to perform well amidst easing regulatory pressure on the sector. Short exposure to a Thai electrical component manufacturer hurt returns as strong earnings momentum and retail support worked against us.

Over the quarter, we reduced our exposure to Financials and moved the portfolio from underweight to an overweight in the IT sector. We increased our exposure by adding to names like the Taiwanese AI related server player Accton, and South Korean SK Hynix, an early cycle play on memory recovery. In Latin America, we exited Cemex and Petro Rio, taking advantage of the relative performance.

Gross exposure at the end of the period was 171.1%, net exposure is 89.9%. The Fund ended the period overweight Brazil, Korea, and Hungary, while being most underweight Taiwan, India, and China. At the sector level, we are overweight Information Technology, Energy, and Real Estate, while being most underweight Communication Services and Consumer Discretionary.

Omvang fonds

Waarde begin van de periode	€2,202,279
Waarde eind van de periode	€2,393,980

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	4.80%	4.80%	9.64%	4.03%	7.95%
Benchmark	4.54%	4.54%	5.42%	1.76%	5.43%

Outlook

We still believe global markets are in the process of adjusting to a world of higher inflation and higher interest rates and banking sector fragility we've seen is one indicator that these higher rates are starting to bite. We expect recent events in the banking sector to lead to a significant curtailment in credit growth which will hurt the outlook for global GDP. Meanwhile central banks are not in a position to cut interest rates to soften the blow, given inflation is not yet back within bands of comfort, though inflation is at least heading in the right direction.

In our view 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 EM 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. Emerging Market's (EM) near term relative attractiveness to Developed Market (DM) is further improved by turning points in two major EM headwinds – China bearishness and persistent US Dollar strength.

As China has now opened its boarders, the team has travelled in the country and note that different areas of the economy are responding differently to the reopening. The consumer economy is largely recovering well with packed trains and restaurants. International travel is taking more time to normalize. Infrastructure is recovering with optimism around new infrastructure projects, including many delayed infrastructure projects which are accelerating in execution. Meanwhile, the property sector recovery is patchy; we see stronger recovery in the larger cities, while in smaller cities the recovery is lagging with high inventories, inflated prices, and low turnover. Both new home and existing home markets are recovering and our checks on new starts suggested a stronger recovery than we had thought, given positive incentives from local government to boost the sector such as increase in land supply and cancellation of the centralized land auction to reduce competition. Geopolitics continues to muddy the longer-term outlook. From that lens, we are happy to take risk in select names but remain structurally underweight.

Oriflex BP Regeling
Oriflex Emerging Markets
Stichting Pensioenfonds Atos Origin
Eerste Kwartaal 2023

BLACKROCK

Omvang fonds

Waarde begin van de periode	€2,202,279
Waarde eind van de periode	€2,393,980

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	4.80%	4.80%	9.64%	4.03%	7.95%
Benchmark	4.54%	4.54%	5.42%	1.76%	5.43%

Outlook (cont…)

Conditions are changing in India, we note improvement in services exports which is stabilizing the current account faster than we expected. In addition, the central bank has hiked rates considerably and inflation is within normal historical ranges. However, we still think valuations remain high, and we continue to believe that issues surrounding the Adani group will weigh on the market, which translates into our current underweight.

In Brazil we retain our overweight positioning as we see signs of support for our thesis to play out this year. The government's fiscal framework was more orthodox versus market expectations which helps to reduce uncertainty regarding the fiscal outlook and is key for the central bank to start reducing interest rates. A reduction in interest rates is the most important support for both the economy and the equity market and these developments should allow the central bank to cut rates soon.

In EMEA we continue to like Central Eastern European markets of Poland and Hungary, as well as Greece, particularly in financials. The FX and economic fundamentals have been under pressure from fears of the energy crisis, and central banks hiked interest rates aggressively, setting up a positive equity outlook as rates peak, at the same time as energy crisis fears are dissipating with the passing winter. We remain negative on Turkey. To put the country on sounder economic footing we need to see inflation come down and a sharp adjustment in both the currency and interest rates to more sustainable levels, none of which look likely. The changes of political change are also slim in our view

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