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

BLACKROCK

Omvang fonds

Waarde begin van de periode	€2,393,980
Waarde eind van de periode	€2,264,688

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-2.19%	2.50%	3.75%	3.81%	8.31%
Benchmark	-3.98%	0.38%	-0.35%	1.07%	5.66%

Investment Review

The fund outrperformed its benchmark over the quarter.

Activity

Emerging Market (EM) equities returned 0.90% in Q2 2023 (MSCI EM index, USD). The quarter was marked by concerns over China's economic recovery, fears around the US debt ceiling, and Fed guidance for two more rate hikes after the June pause. Reports that China was preparing a large stimulus package to address the lackluster recovery, and a smoother-than expected resolution to the US debt ceiling saga helped to offset these headwinds. One theme which trended globally was of generative AI, which propelled the Tech sector to substantial gains.

Performance & Positioning

The BSF Emerging Markets Equity Strategies Fund outperformed its benchmark, the MSCI Emerging Markets Index, in Q2 2023. Long positioning contributed, whereas short positions detracted.

Longs in Brazil, India and Korea have been the top contributors. From a sector lens, Financials and Information Technology have been key drivers. Brazil positioning drove returns with the long side contributing positively. From a sector lens, energy overweight and Industrials positioning posted the greatest relative performance for the fund. Elsewhere, longs and shorts in China have detracted. In addition, underweight to India has also detracted.

Brazilian healthcare stock Hapvida was the period's top contributor, rebounding on the back of a significant earnings beat, supported by lower sales expenses and an unexpected improvement in its medical loss ratio. Elsewhere, Brazilian financial positions such as XP and B3 have also done well, buoyed by expectations of interest rate cuts later in the year. Position in Argentinian lender Grupo Financiero Galicia was the top contributor. Argentina has done well as investors position themselves ahead of the election in October this year. Markets cheered the ruling coalition selecting Sergio Massa as its sole candidate, who is widely perceived as a relative market-friendly pragmatist. Overweight in Indonesian conglomerate, Astra International, performed well supported by good results, and more importantly, improved capital return hiking the current dividend. Additionally, positioning in a Southeast Asian power electronics stock benefited performance as earnings outlook looks weak, driven by weakness in demand and order delays.

On the other side, collection of EV-related shorts were the top detractors. Amongst those names were Chinese EV manufacturers that rallied on policymaker announcements of faster economic growth in Q2. We maintain our view that price reductions and tough competition will be margin dilutive for this sector. Elsewhere in China, Alibaba, the Chinese e-commerce giant, has detracted amid intensifying e-commerce competition and weakening sentiment towards China manifesting foreign investor led selling. Another detractor was our long positioning in Sunny Optical Technology, which is a Chinese company producing optical and optical related products. The company is impacted by the broader slower-than-expected demand recovery for smartphones in China.

Gross exposure sits at 163.0%, net exposure is 95.4%. Beta is 0.92. • The fund is most overweight Brazil, Korea, and Hungary whilst being underweight Taiwan, India, and China. At the sector level we are overweight Industrials, Information Technology, and Real Estate, whilst being underweight s, Consumer Discretionary, Communication Service and Healthcare.

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. Selectivity across markets and a focus on fundamentals and valuations will be key as we anticipate volatility to persist.

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. We are starting to see inflation across EM starting to surprise to the downside. A continuation of this trend could lead to earlier-than-expected easing response from central banks to incentivize domestic growth.

In China data has been somewhat patchy with different areas of the economy responding differently to the reopening. Whilst the magnitude of consumption recovery has been more lackluster than initially anticipated, expectations are it will persist at a slower pace. We remain selective in our exposure amid attractive valuations and consensus bearishness on the market. We are keeping a close eye on how effective stimulus measures will be to drive growth, and have neutralised exposure to the market in recent months, using the proceeds to close our underweight in Korea where structural themes such as AI and the IRA are more visible.

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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.

Elsewhere we have taken profits in Mexico, where relative performance has been strong, and we no longer carry the same size overweight as twelve months ago. The structural positive outlook for Mexico remains, as a key beneficiary from the shifting of global supply chains. Other countries which we see as beneficiaries are in South East Asia markets such as Malaysia where we see manufacturing companies in massive expansionary mode.

In Brazil we have added to our overweight positioning as we 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, 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 post the election. 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.

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

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