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

BLACKROCK

Investment Review

The fund outperformed its benchmark over the quarter.

Activity

MSCI EM broke its streak of three consecutive positive quarters, led down by US Dollar strength and the US Fed signalling a higher for longer continuation putting pressure on equities. Concerns over China's economic outlook persisted after support for its troubled real estate sector disappointed, and the EM foreign exchange market ended September with a 6-month losing streak, its longest streak since 2001. A strong rally in oil prices towards the end of the quarter was not able to lead EM equities into positive territory. All EM regions posted negative performance in Q3. LatAm (-4.7%) was the worst performer, followed by EM Asia (-3.3%) and CEEMA (-1.8%).

Performance & Positioning

The BSF Emerging Markets Equity Strategies Fund outperformed its benchmark, the MSCI Emerging Markets Index, in Q3 2023. Both long and short books outperformed the market, contributing to relative performance.

China was the quarter's top performing market, driven by the long book, whilst and a collection of DM-listed, China-related shorts also benefitted the fund, as did Taiwan and off-benchmark exposure to Israel. Turkey and Brazil, and Hungary were the period's largest detractors. At the sector level, consumer discretionary, real estate, and healthcare dominated returns, whilst financials and industrials dragged.

Property developer Sunac China was the top contributor following a China property rally earlier in the month that was driven by a short squeeze in the market and re-gained interest from South bank investors. Sharkninja, a subsidiary of the Chinese small appliances manufacturer JS Global, performed very well on the back of a successful listing on the NYSE in July. UAE developer, Emaar Properties also made it into 3Q's top ten contributors supported by booming property market. The short book was also represented amongst the period's stronger performers. A Korean cathode (EV battery component) stock pulled back meaningfully following a decline in the retail excitement surrounding industry-related names. This price action was amplified by the Korean regulator prompting investigations into "Mr. Battery" who was reportedly found simultaneously working as a portfolio manager at an investment fund while also acting as a public relations director at another firm. Additionally, a short luxury position, which is a derivative China consumption play, also performed well for the fund on the back of demand weakness within that market.

On the other hand, Hungarian low-cost carrier Wizz Air was amongst the largest quarterly detractors, impacted by headlines surrounding concerns over Pratt & Whitney engine issues. We maintain conviction in the stock on the belief that the market is misunderstanding the impact of this on financials, and very cheap valuations do not reflect significant competitive advantages against regional peers. Chinese optical lens manufacturer, Sunny Optical Technology, was the quarter's worst performer as smartphone suppliers got hit following news flow that Chinese government agencies were planning a ban on Apple iPhones. Our position in Barrick Gold detracted amid higher US 10-year yields and a stronger dollar. On the other side, a short Turkish bank position hurt returns as the market outperformed on commitments of tighter monetary policy. A short Taiwan IT position was also weighed on relative returns despite some profit taking towards the end of the quarter, amid very strong momentum towards AI-related plays.

At quarter-end, gross exposure was up to 173.1%, whilst net exposure came in to 92.4%. Beta was 0.94.

We notably added risk to China added risk to education names (TAL Education and New Oriental) on much tighter supply/demand dynamics following the 2021 regulatory crackdown and pressure from Covid lockdowns. Both names should capitalize from market share gains in the face of easing competitive pressures. On the other hand we increased shorts in Korea and Taiwan, specifically where retail supported momentum has, in our view, led to significant divergence of between stock price and fundamentals. The fund does have exposure to Israel through Teva pharmaceuticals (+2.4%). This position was held as we were keen to add some defensive healthcare exposure to the portfolio and with the stock trading at near record low multiples and felt that it was an attractive play relative to their more expensive Indian peers.

At the end of September, the fund was most overweight Brazil, Philippines, and Colombia, whilst being underweight Taiwan, India, and Turkey. At the sector level we are overweight industrials, real estate, and utilities, whilst being underweight financials, communication services, and consumer discretionary.

Omvang fonds

Waarde begin van de periode	€ 2,264,688
Waarde eind van de periode	€ 2,202,841

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-1.59%	0.87%	2.37%	4.20%	7.73%
Benchmark	-1.67%	-1.30%	-2.69%	0.93%	5.23%

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Outlook

We believe global markets are starting to feel the impact of higher interest rates, noting slowing US credit growth in autos and commercial real estate in particular as evidence that a demand slowdown is likely coming in developed markets. When combined with a Chinese economy which is struggling to find its footing we find it difficult to see where a meaningful pick up in global growth will come from. We remain cautious.

In contrast we see better fundamentals in emerging markets (EM), particularly outside of China, versus Developed markets (DM). Monetary tightening across much of EM was ahead of that in developed markets as well as, in many cases, stronger than in past cycles, particularly in LatAm and Eastern Europe. With inflation falling we are now starting to see central banks cut rates, typically a good set up for emerging markets as domestic growth accelerates.

The shifting geopolitical landscape we believe is supportive of many parts of emerging markets. We see a World splitting into three groups: those aligned with China, those aligned with the US and the rest. The latter group which we have coined the "Transactional 25" are uniquely positioned to benefit from their ability to trade with both blocs, and are already seeing an increase in their share of global Foreign Direct Investment (FDI) flows. Beneficiaries include Indonesia, Mexico and India among others.

In China our view remains that market will struggle to meaningfully outperform for a sustained period. In our view we are entering the “great reversal” where core drivers of China’s success over the past 20 years, ranging from globalization to urbanization, start to head in the opposite direction. Real estate, fixed asset investment and consumer confidence all look troubled. Long term we see China looking more like a traditional deep liquid stock market with plenty of stock-specific opportunities rather than a beta growth story. Market expectations still need to adjust to this new market reality by way of a lower multiple and higher risk premia. Short term there are opportunities to take advantage of the extremely bearish sentiment and we believe the alpha on offer in the market on both the long and short side will persist.

We remain optimistic about Latin America. Central banks have been proactive in increasing interest rates to help control inflation, which has started to fall across most countries in the region. With inflation at the lower range, we have started to see central banks beginning to lower interest rates, which should support both economic activity and asset prices. Brazil is the showcase of this thesis - with the central bank cutting the policy rate in early August by 50bps. The government’s fiscal framework being more orthodox than market expectations also helped to reduce uncertainty regarding the fiscal outlook and was key for confidence. We expect further upside to the equity market in the next 12-18 months as local capital starts flowing into the market.

Elsewhere we note the growth in oil and gas production in Argentina which is on an impressive trajectory and where we have long exposure. This shift is especially important for a country short on savings and an important source of capital. In order for us to get more interested on the long side we are watching the upcoming election to see if there is appetite for the more serious economic adjustment we think is needed to restore the country to growth. Nigeria is another market we are watching closely where we have been invested historically. There a new president has been elected and early moves are positive such as the removal of subsidies. Other signposts we are watching for include a stabilization in growth in oil production, improvement in revenue collection and moves to allow the exchange rate to function freely.

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

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