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

BLACKROCK

Investment Review

The fund underperformed its benchmark over the quarter.

Activity

MSCI EM had another strong month, up +3.7%, to finish off the year up +9.8% in 2023 after two consecutive years of negative returns. EM still underperformed DM by 14.0% for the year as US equities proved resilient through unprecedented monetary tightening. All EM regions posted positive performance in December with LatAm (+8.3%) in the lead followed by CEEMEA (+4.8%) and EM Asia (+3.5%). China equities ended the month down -2.4% as growth continued to slow and more regulations were announced, this time in the gaming sector. For the full year 2023, LatAm posted a strong performance (+32.7%) while EM Asia (+6.0%) and EMEA (+8.2%) posted mid-single digit returns.

Performance & Positioning

The BSF Emerging Markets Equity Strategies Fund outperformed its benchmark, the MSCI Emerging Markets Index, in Q3 2023. Longs contributed, whilst shorts detracted in aggregate.

Korea, Brazil, and Hungary were amongst the top contributors in 4Q, whilst India, Thailand, and Indonesia detracted. At the sector level, consumer staples, financials, and IT performed well. Materials, real estate and utilities weighed on relative returns.

It is worth noting that Russia flagged as the largest driver of relative performance over the period as we were able to fully divest positions in X5, Ozon, Magnit, and TCS, crystallising PnL for the fund. Whilst this was a great development for the fund, we continue to explore options to derive value from Russian securities still held in the portfolio; the local lines (shares listed on the Moscow stock exchange) remain untradable, however, the firm has been actively tracking liquidity and demand in the OTC market for a selection of unsanctioned Russian depository receipts and foreign-listed equities.

Brazil continues to be a strong driver of returns as our thesis surrounding easing credit conditions plays out, where more dovish sentiment from the Fed should give the central bank room to cut rates more aggressively in 2024. Payments related names such as Cielo and Pagseguro performed well further supported by a recovery in total payment volume (TPV) growth. The latter also benefitted from a favorable resolution that will see no limitations placed on the interest-free, installment payment model. Elsewhere, a short Korean cathode position performed well as retail support wanes and investors begin to acknowledge how stretched valuations are for the largely commoditized and capital intensive industry.

On the hand, a short Chinese ecommerce positions was the month's largest detractor after the company reported very strong results and the stock soared, accumulating a market cap higher than competitor Alibaba for the first time. The company has continued to monetize its low-cost e-commerce brand overseas, but we remain cautious on monetization, margins and risk/reward for the stock. Indonesian conglomerate, Astra, was a drag on performance as concerns the company has been slow to ramp into EVs in the Indonesian market and risk losing out to Chinese competition continue to hurt sentiment. A short, multi-country iron ore position also weighed on relative returns as property sector policy support in China has supported demand and prices.

At quarter-end, gross exposure was 171.2%, whilst net exposure came in to 92.0%. Beta was 0.96.

We rotated some exposure in China, taking profits from CCB which has done quite well, relative, and adding to underperformers such as Alibaba, and JD.com. We also increased exposure to Chinese real estate through developers Sunac and Country Garden, as valuations are significantly depressed and in our view there is asymmetric risk/reward if the sector stabilises. Elsewhere, we initiated a position in copper miner, First Quantum Minerals, as we believe the political risks surrounding their Cobre Panama asset have peaked and market is underestimating a positive resolution towards operations resuming. We exited a position in Thailand's PTT to actively reduce our energy exposure. Since the positive political outlook domestically has yet to transpire, this was a prime target. On the short side, we partially covered some positions in the EV supply chain across market following strong returns.

At the end of the year, the fund was most overweight Hungary, UAE, and Philippines, whilst being underweight India, Taiwan, and Turkey. At the sector level we are overweight real estate, industrials, and materials, whilst being most underweight financials, IT, and communication services.

Omvang fonds

Waarde begin van de periode	€ 2,202,841
Waarde eind van de periode	€ 2,093,916

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-1.06%	-0.20%	-2.96%	5.21%	6.94%
Benchmark	0.82%	-0.48%	-6.42%	2.88%	5.21%

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Outlook

We believe the rebound in emerging markets is warranted given expectations of peaking policy rates. That said as higher global rates continue to feed through into the real economy globally we expect a demand slowdown to bite in developed markets. We note slowing credit growth in particular as evidence that a slowdown is likely. 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. Within our universe Brazil is a well held overweight across our platform, with common underweights in Taiwan, China, and Saudi Arabia.

The shifting geopolitical landscape which is leading in our view to a re-organization of globalization 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.

Indonesia, for instance, is the world's largest exporter of nickel, vital in the making of batteries for electric vehicles. As the value of nickel exports multiples this represents an important shift for a country that has historically run a current account deficit. The size of the increase that we are seeing in nickel exports is such that the structural current account deficit of around 3% of GDP that Indonesia saw pre covid, has already shrunk by around 1% of GDP and is likely to shrink by a further 1% of GDP by 2025. This should have the benefit of making Indonesia less reliant on borrowing from abroad and attracting foreign capital potentially resulting in increased domestic liquidity and higher economic growth.

Our view of India, informed by recent investor visits, is more positive than it was at this time last year although we remain underweight given recent strong price action. Many of the data points we were more cautious about entering the year (balance of payment deficit, weak monetary policy, and Adani spillover), have materially improved. All the while two positive trends are emerging - first the acceleration in India's chemicals and industrial manufacturing businesses, in part due to the World in three dynamics laid out above. Second, is the boom in service exports as more and more smaller and mid-sized companies across industries are integrating remote labor into their operating model. We still think valuations remain high, although they have corrected from the peak.

We are cautious on China and are largely underweight in portfolios. 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 individual opportunities within the market rather than a China 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 may be opportunities to take advantage of extreme bearish sentiment.

Elsewhere in Asia we remain cautious on the retail momentum in Korean battery and component manufacturers, as well as AI-related Taiwanese tech names. Many of these companies are trading at peak margins in a hangover from the covid period and the excess is far from fully washed out, due to the surge in AI related demand. While it is clear that AI will result in an incredible amount of spend going forward, it is the pace of downstream developments across industries (autonomous driving programs or strategy optimization in more traditional businesses like insurance or consumer sectors through big data application etc) which will be key in determining the level of hardware demand. Pricing is starting to crack in places which we expect is a sign of more to come. We also see the upcoming Taiwan Presidential election increasing risks especially in the event of a DPP win.

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. In addition to this normal economic cycle, the whole region is benefitting from being relatively isolated from global geopolitical conflicts. We believe that this will lead to both an increase in foreign direct investment and an increase in allocation from investors across the region.

Brazil is the showcase of this thesis - with the central bank cutting the policy rate considerably with more to come in our view especially if the Fed stops raising rates itself. The government’s fiscal framework being more orthodox than market expectations has 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.

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Outlook (Continued)

In EMEA we continue to like Central Eastern European markets of Poland and Hungary, particularly in financials. The central banks there too hiked interest rates aggressively, and are now starting to cut setting up a positive equity outlook. 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).