

PICTET ASSET MANAGEMENT

Delivering Uncorrelated Alpha in EM Debt Markets

Gareth Payne– 6th October 2022

MARKETING MATERIAL

1.

Strategy

Dispersion is rife and alpha is 'left on the table'

We believe that **opportunities** in emerging markets arise from:

- The asset class being **treated as homogeneous**
- An investor **focus on beta and carry**
- The growth in **benchmark-aware investors** concentrating on the largest markets

Extracting this alpha requires unique skills and risk toolkit

In this market context, we seek to generate **long-term risk-adjusted returns** through:

- **Strong independent convictions**, rather than following the consensus
- **Generating alpha without a long or short bias** through all market cycles
- **Strong focus on downside protection**

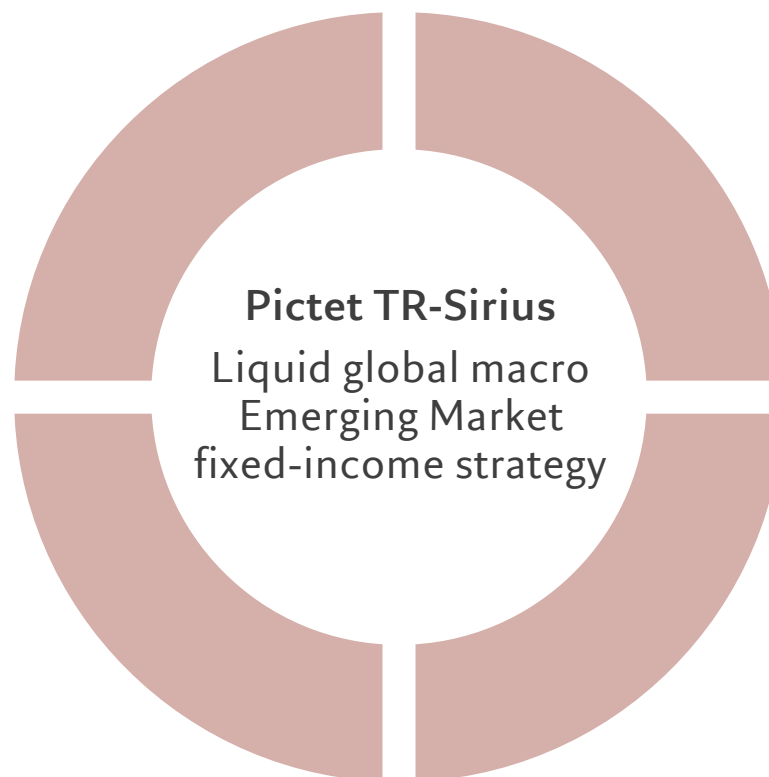
At a glance

Opportunity

- High-conviction macro & relative value HF strategy
- Targets dispersion to deliver alpha in all market conditions
- Invests in a wide range of EM sovereign bonds, rates and FX

Structure

- UCITS compliant with weekly liquidity
- AUM of strategy: USD 1.0bn
- Strategy capacity: USD 1.5bn



Objective

- To build a liquid portfolio with low correlation to major risk factors
- Targets SOFR¹ + 6-8% gross return, with an expected volatility of 4-6% p.a.²
- Strong focus on managing downside risk

Investment Team

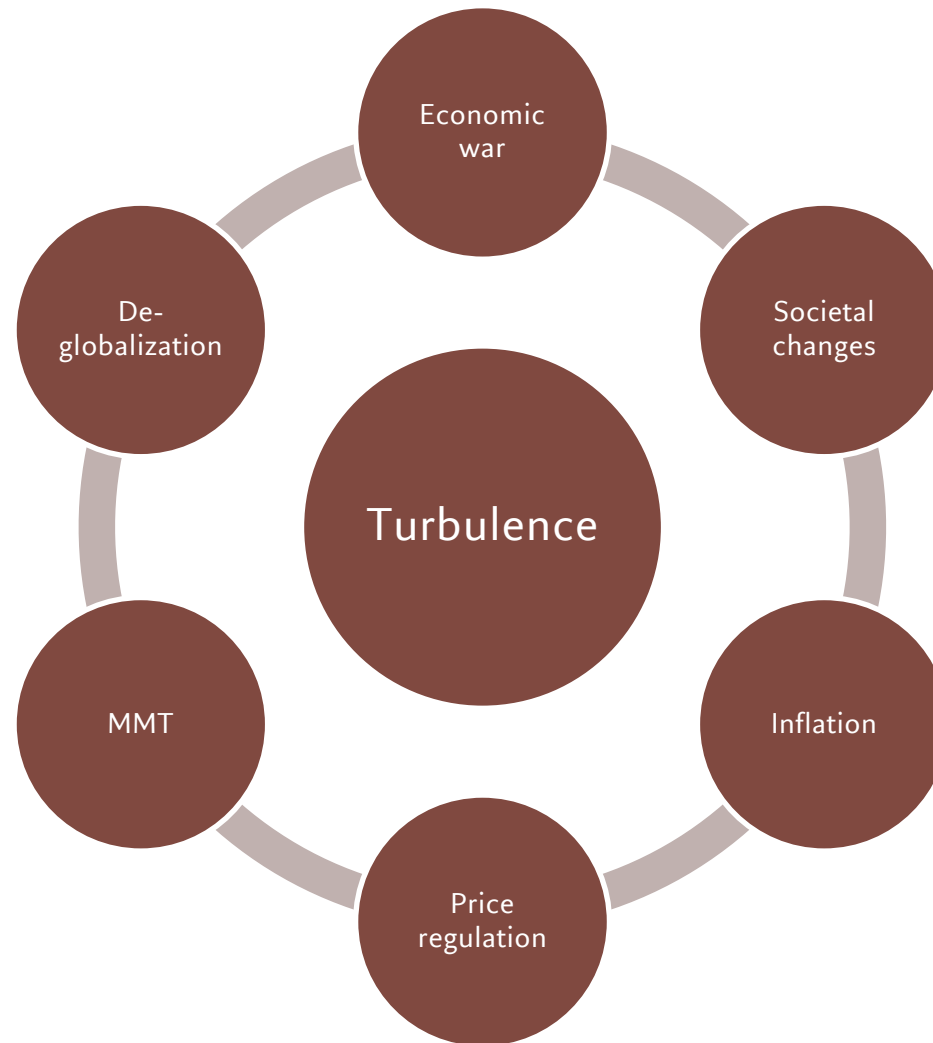
- Experienced investment team dedicated to the Sirius strategy and supported by Pictet AM's global resources and with strong local relationships across emerging markets

¹Secured Overnight Financing Rate (USD). Reference index changed from ICE LIBOR USD Overnight to SOFR from 01.01.2022. ²Over a 3 to 5 year investment horizon. These are internal guidelines only which are subject to change at any time without prior notice. For complete investment rules and limits, please refer to the fund's prospectus. Source: Pictet Asset Management, 31.07.2022.

2.

Market Views

Turbulent times – from volatility to uncertainty



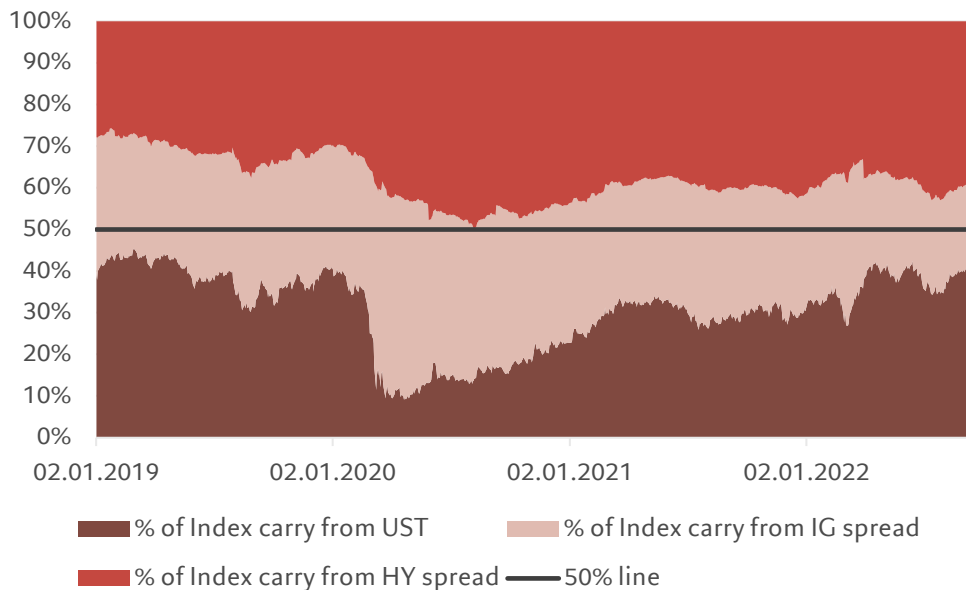
Extracting premium in EM – EM Sovereign Credit

Don't be fooled by nominal levels, look under the hood:

- What looks like a large repricing is mainly a mix of core rates and weaker names defaulting
- It is necessary to assess the non distressed EM premium on offer
- Most of the premium comes from names entering distress/restructuring territory

→ **Name selection** is more important than ever

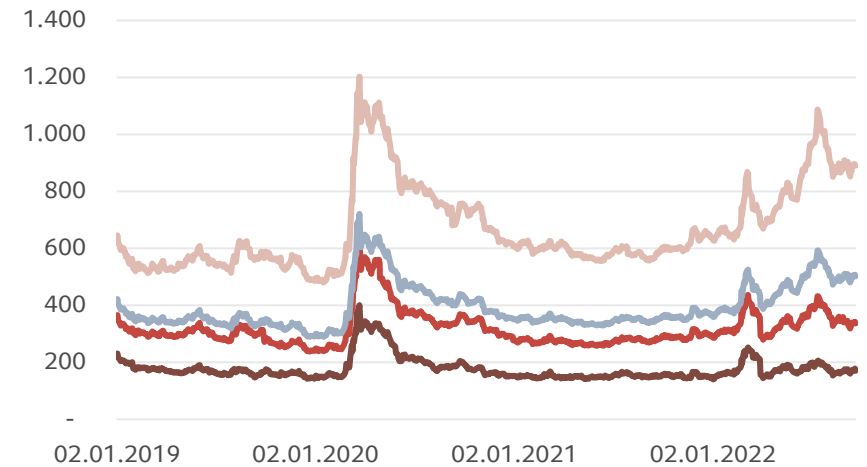
EM Sovereign carry contributions



Source: Pictet Asset Management, Bloomberg, 23.09.2022



Widening spreads and dispersion



EMBI IG - Spread EMBI HY - Spread
 EMBIGD no CCC Spread EMBI - Spread



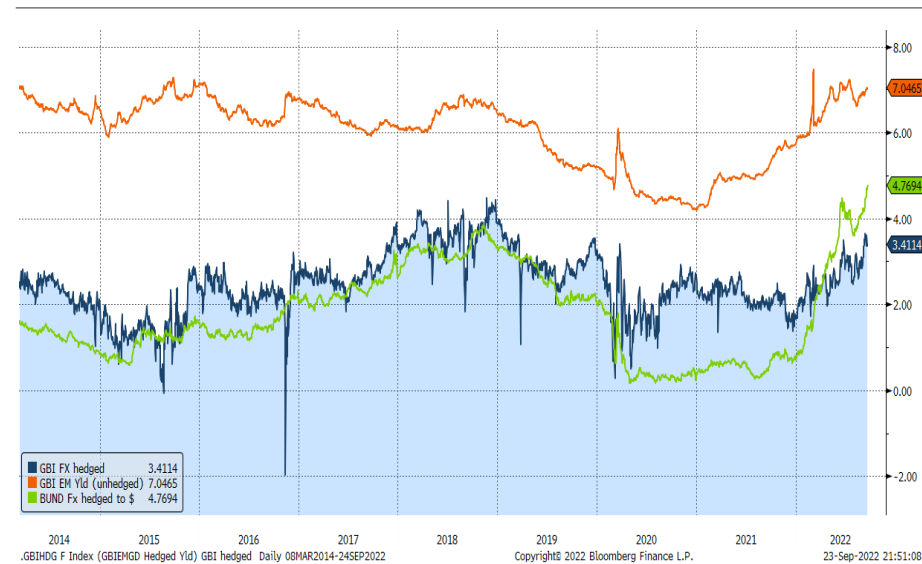
non CCC spread - IG spread HY Spread - CCC spread

Extracting premium in EM – EM Rates

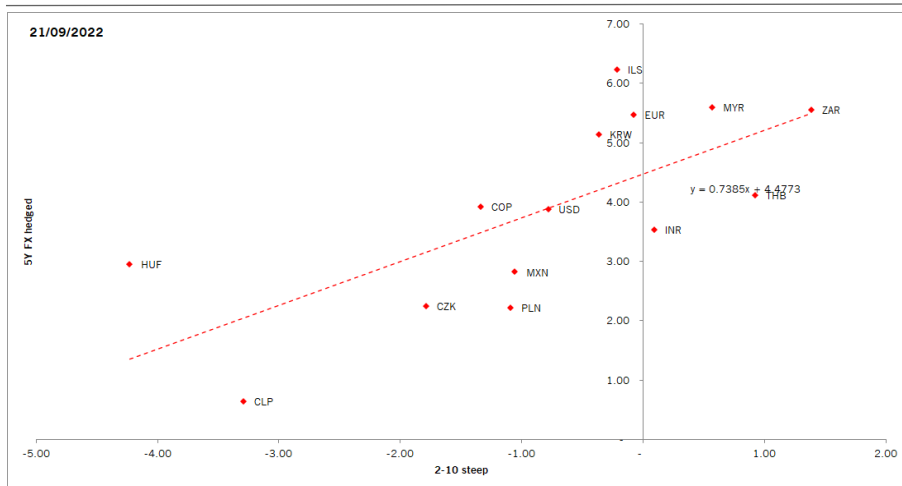
Most of the premium is in front end

- FX hedged trade carry unattractive vs DM for a US investor
 - EM countries have been very proactive yet...
 - ...most curves are inverted making a broad EM duration trade challenging
- Global rates and local fiscal policies should drive the duration picks near term

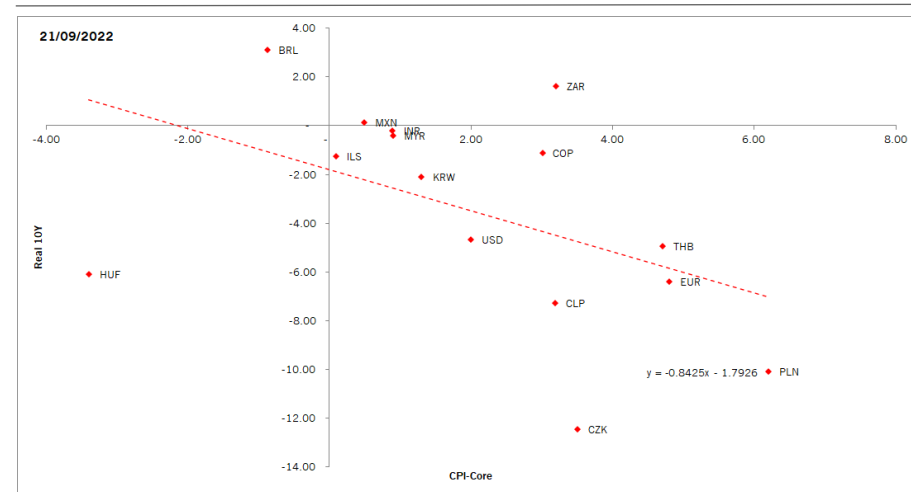
Unattractive FX hedged trade carry vs DM



More curve inversion in EM Rates



Inflation up, negative real yields



Source: Pictet Asset Management, Bloomberg, 21.09.2022

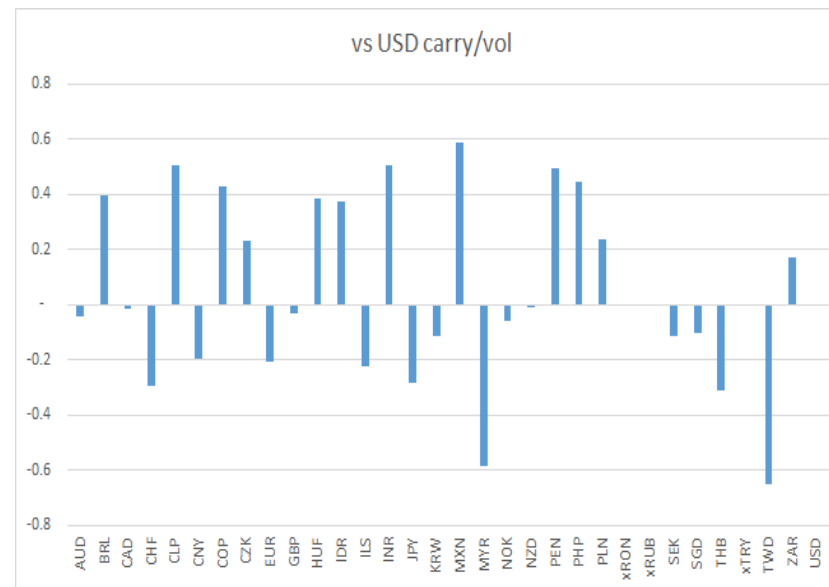
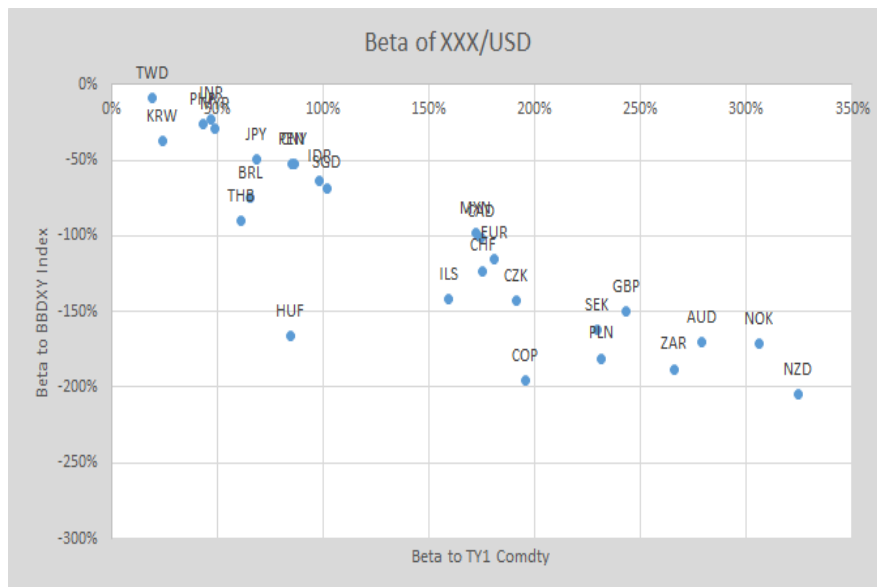
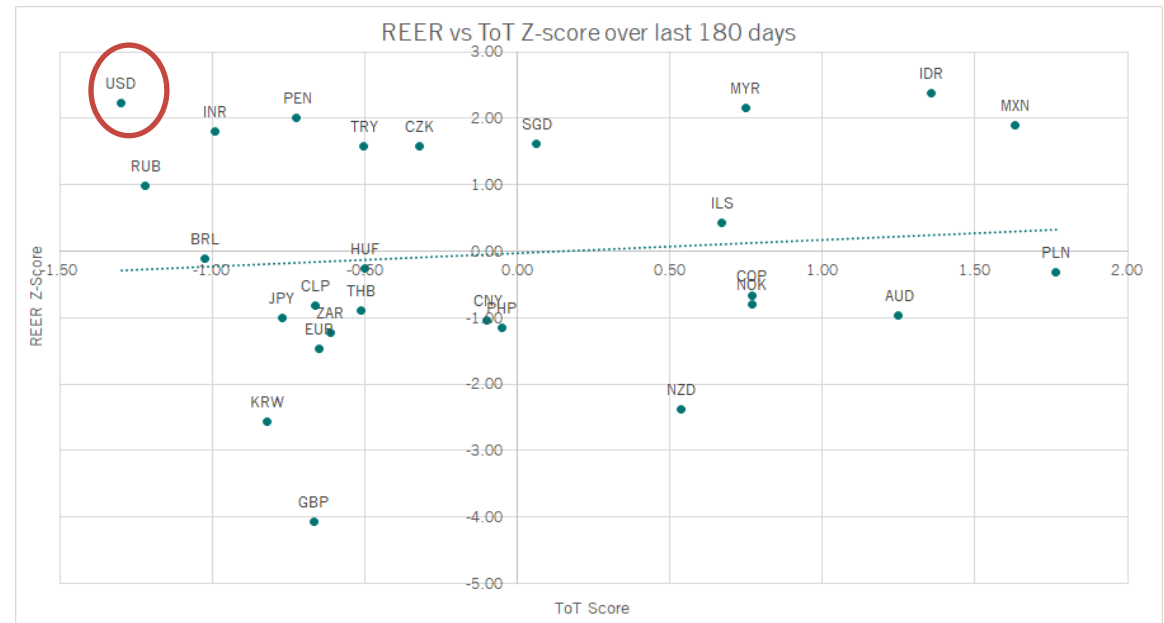


Extracting premium in EM – EM FX

Most of the carry sits in EMFX yet the USD is in a powerful trend

- Potential high differentiation
- But drivers switch from ToT to rates differential to USD sensitivity quicky
- Elevated implied volatility translates that currencies are an active macro pressure valve

→ Build L/S positions to extract risk premium but isolate from USD and other tail-risks



Carry/realised vol	
1.67	CZKEUR
1.34	INRTWD
1.24	COPTWD
1.17	IDRTWD
1.16	MXNJPY
1.13	MXNTHB
1.09	MXNSGD
1.05	PHPTWD
1.03	MXNTWD
1.03	COPJPY
0.97	PLNEUR
0.97	PHPTHB
0.94	MXNEUR
0.93	MXNILS
0.92	IDRMYR
0.90	MXNCAD
0.88	MXNCNY
0.85	PHPCHF
0.85	CZKSEK
0.81	PENTHB

Source: Pictet Asset Management, Bloomberg, 21.09.2022



- The concept of risk/reward should be assessed as tail risk/premium on offer, higher risk higher reward overall
- L/S construction mindful of tail is either achieved by hedging the tail or avoiding it altogether
- Incorporate the concept of market friction to price dynamics
- Long anti fragile / short complex systems
- Monitor for “game changers” that can take us back to the former system or change the narrative altogether

The usual long term beta framework is heavily challenged
It is necessary to be reactive = the best hedge is liquidity and flexibility

3.

Navigating Complexity



Under The Bonnet: The Risk Tools We Use

GLOBAL FACTORS

GLOBAL FINANCIAL CONDITIONS

G-3 Monetary Policy
G-3 Fiscal Stance
DM Inflation
China Credit Growth

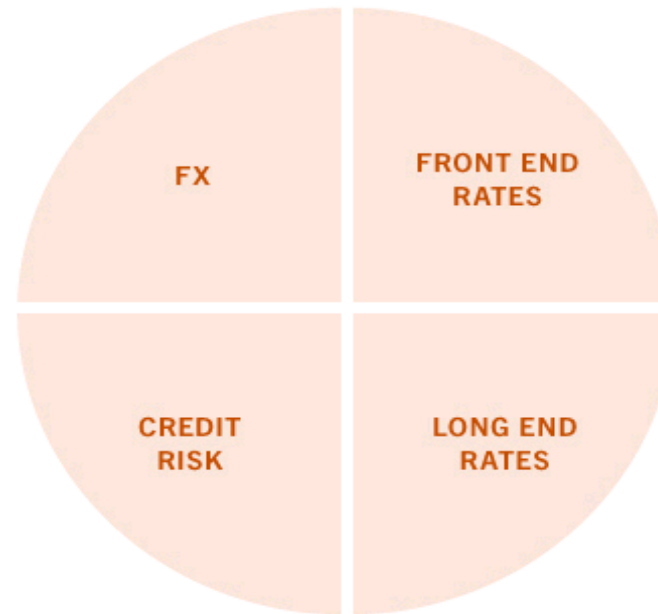
GLOBAL MACRO BACKDROP

Global Growth
COVID Impact
Commodity Prices
Global Trade
Dollar valuation

LOCAL FACTORS

Growth / Inflation Differential
Real Rate Buffer
Balance of Payments
Foreign Ownership (NIIP)
● Fiscal Balance
● Reserve Adequacy
● Central Bank Reaction
Function & credibility
● Political Risk

External Debt Burden
Growth Rate
● Political Risk
● Fiscal Balance
● Financing Mix
Rating

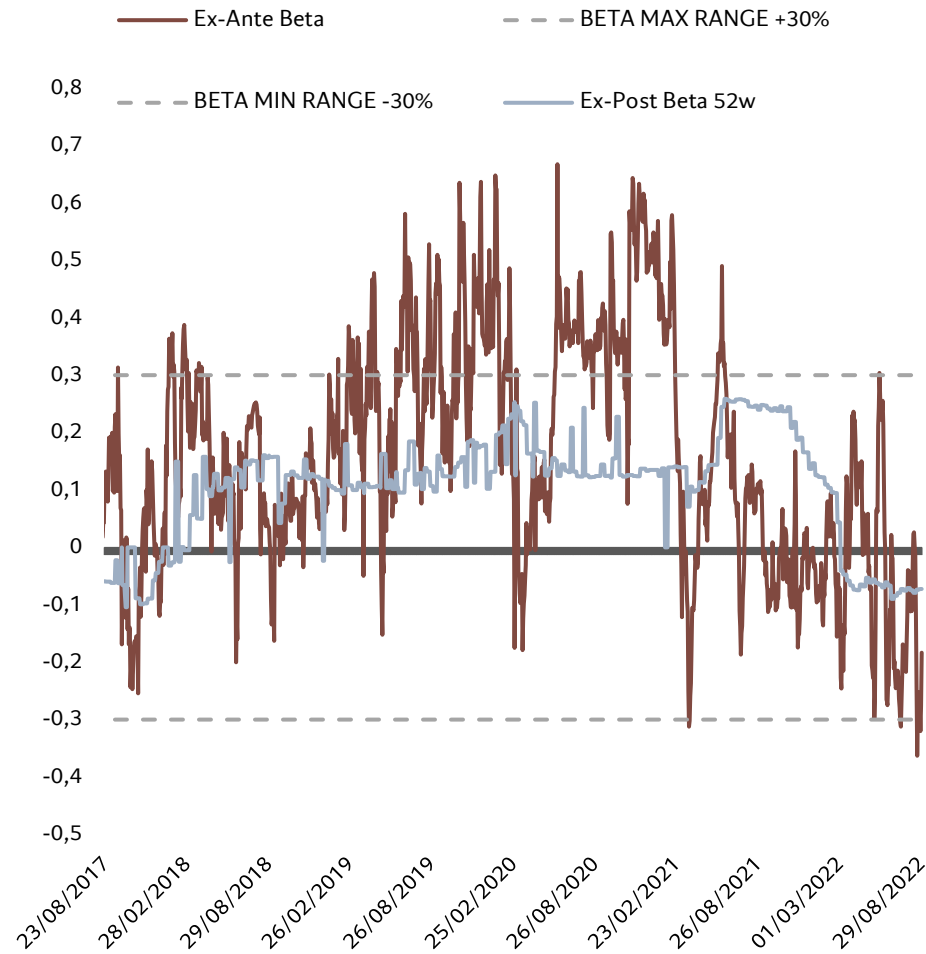


● Inflation Expectations
● Central Bank Reaction
Function & credibility
● Reserve Adequacy

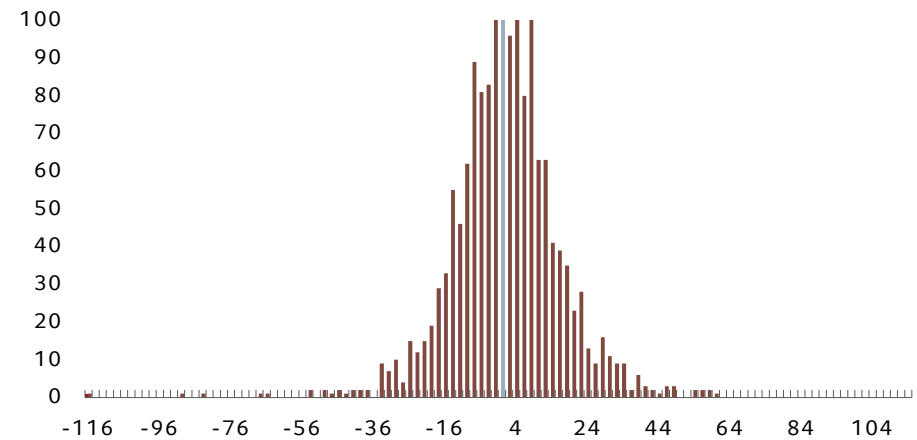
● Fiscal Profile Mix
● Financing Mix
● Political Risk
● Credit Risk Premium

Under The Bonnet: The Risk Tools We Use

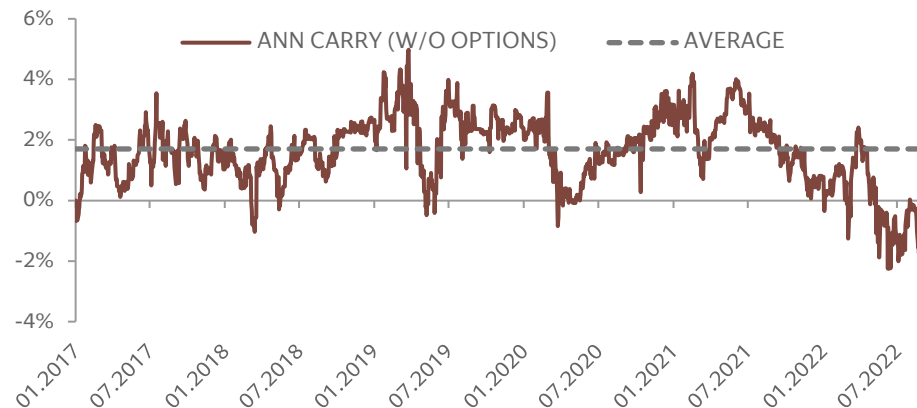
Ex-ante beta range



Distribution of daily P&L (in bps)



Annualised carry (without options)



For illustrative purposes only. The representative strategy is the Fixed Income Emerging L/S segregated segment within Pictet TR-Diversified Alpha from 13.07.2016 to 31.08.2022 (since inception to present). The Pictet TR-Diversified Alpha fund is a Luxembourg SICAV that invests primarily in market-neutral strategies managed by selected Pictet AM teams. These investment strategies have exposure to various financial assets (equities, bonds and other debt-related securities, financial derivatives) globally. Past performance is not a reliable guide to future performance. The value of investments and the income from them may fluctuate and investors may not get back the full amount invested. Performance data does not include the commissions and fees charged at the time of subscribing for or redeeming shares. Source: Pictet Asset Management, 13.07.2016 to 31.08.2022.



4.

Delivering Alpha

Representative Strategy* - Performance

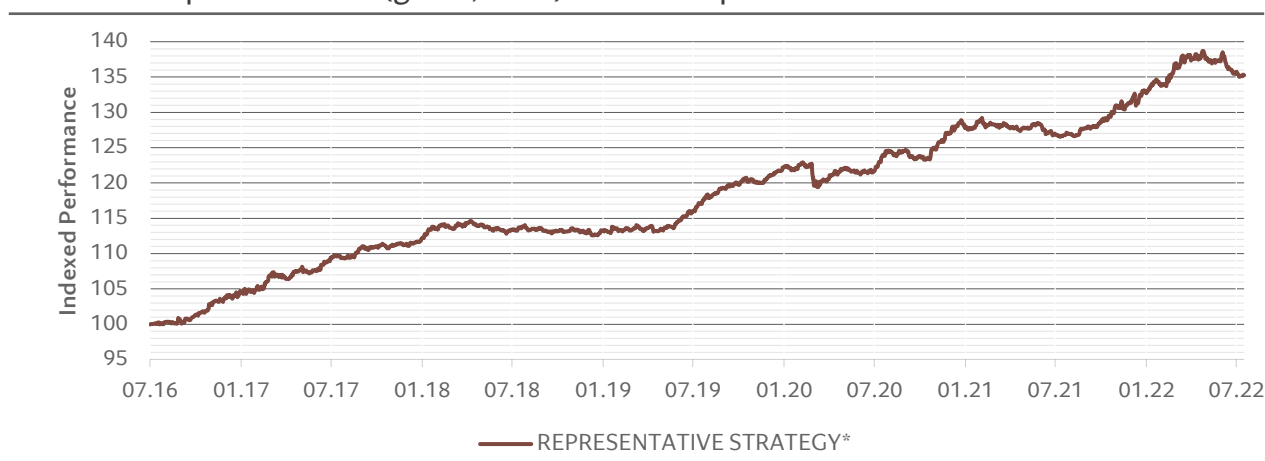
Monthly performance (gross, USD)

%	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2022	1.48	0.58	1.34	0.40	-0.33	-0.76	-0.65	0.19	0.49 ¹				2.73 ¹
2021	-0.53	0.22	0.25	-0.77	0.65	-0.86	-0.35	0.24	0.79	1.14	0.66	1.64	3.08
2020	0.22	0.27	-1.62	0.73	0.36	-0.22	2.17	0.25	-0.64	-0.09	1.96	2.18	5.63
2019	1.02	-0.16	-0.12	-0.24	0.49	1.36	1.50	1.31	0.88	0.44	-0.15	1.41	8.05
2018	1.63	0.58	0.05	-0.02	-0.53	-0.37	0.47	-0.22	-0.21	0.03	-0.01	-0.43	0.94
2017	0.54	0.46	1.75	0.44	-0.12	1.38	0.83	0.25	0.87	0.13	0.41	0.08	7.23
2016	-	-	-	-	-	-	0.26	-0.09	0.39	1.05	1.74	0.66	4.06 ¹

At a glance (as of 27.09.2022)

Inception	13 July 2016
MTD return	0.49%
YTD return	2.73%
Cumulative return since inception	36.14%
Ann. Return since inception	5.09%
Ann. Volatility since inception	2.45%
Sharpe Ratio	1.46
Maximum Drawdown ²	-2.87%

Cumulative performance (gross, USD) since inception*



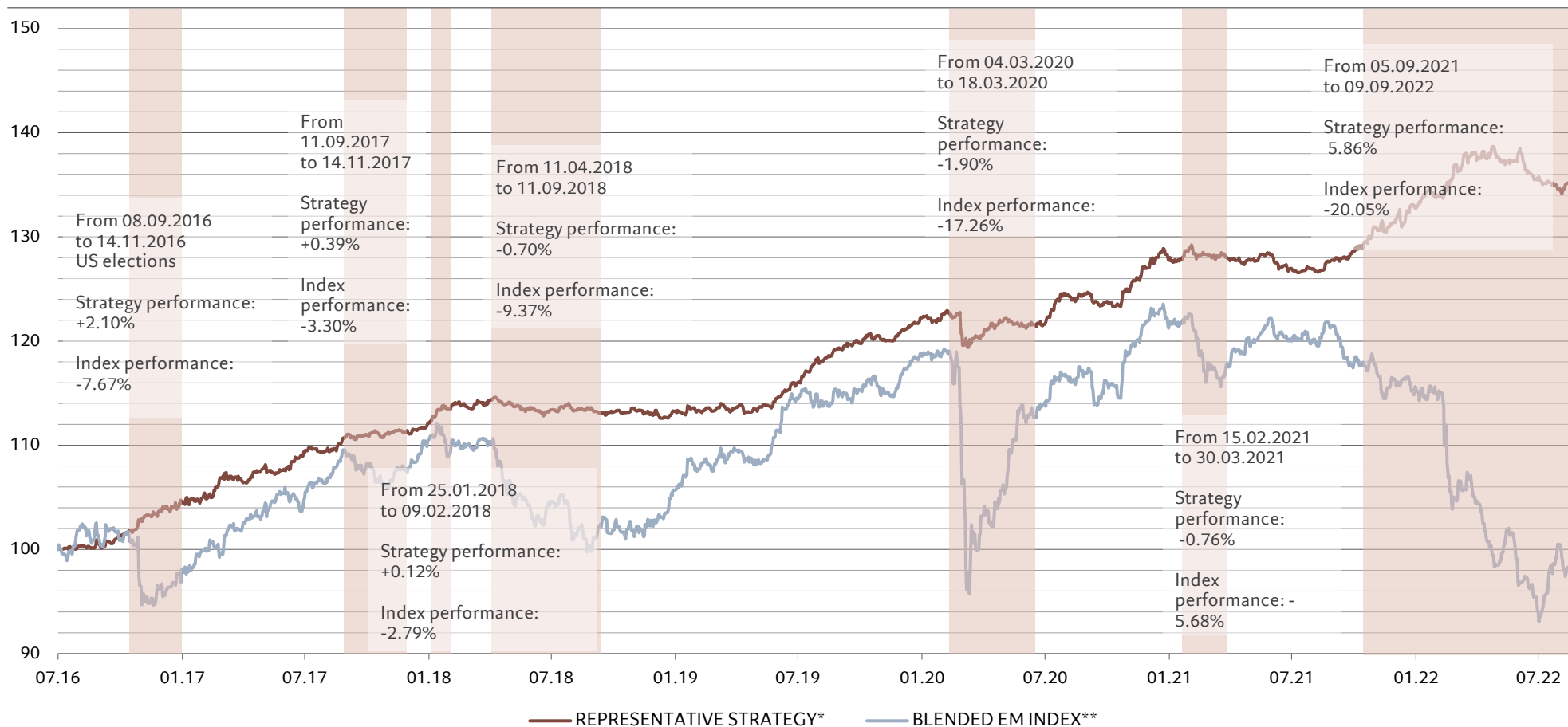
*The representative strategy performance is composed of actual gross returns for the Fixed Income Emerging L/S segregated segment within Pictet TR-Diversified Alpha from 13.07.2016 to 27.09.2022 (since inception to present). The Pictet TR-Diversified Alpha fund is a Luxembourg SICAV that invests primarily in market-neutral strategies managed by selected Pictet AM teams. These investment strategies have exposure to various financial assets (equities, bonds and other debt-related securities, financial derivatives) globally.

¹Partial month / year. ²Based on daily returns. Note: All performance data shown gross of fees. Past performance is not a reliable guide to future performance. The value of investments and the income from them may fluctuate and investors may not get back the full amount invested. The client's returns will be reduced by the management fees and other expenses.

Source: Pictet Asset Management, data as of 27.09.2022.

Sirius vs. a Passive Allocation

Cumulative return (gross, USD)

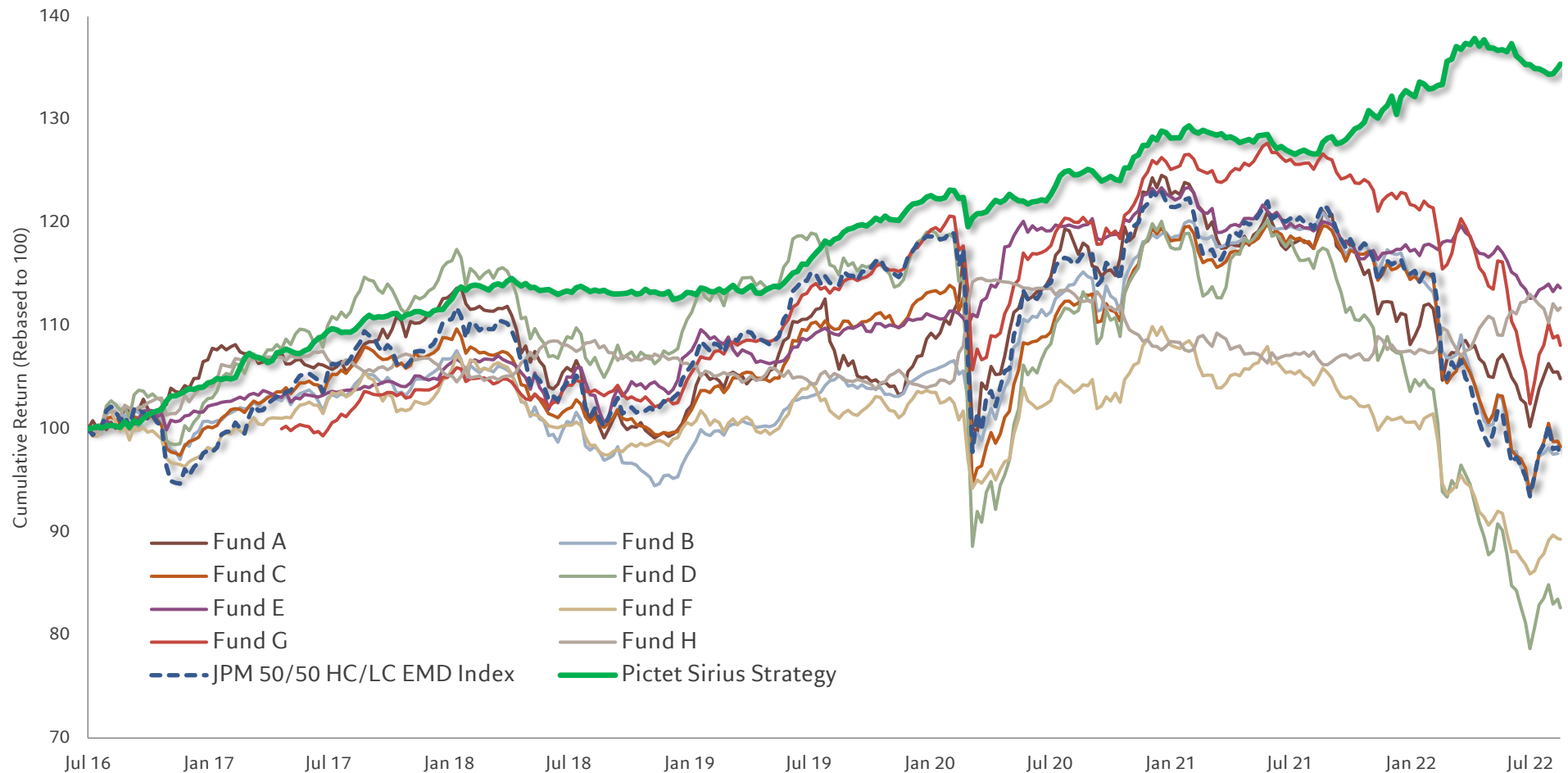


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Note: All performance data are shown in USD, gross of fees and based on weekly returns. Please note that a standalone vehicle will be subject to fees and expenses such as management, performance, administration, operational etc. that will result in lower net returns for your investment. Past performance is not a reliable guide to future performance. The value of investments and the income from them may fluctuate and investors may not get back the full amount invested. Source: Pictet Asset Management, 09.09.2022.



Sirius vs Total Return peers since inception (July 2016 to date)



*For illustrative purposes only. The representative strategy performance is composed of actual gross returns for the Fixed Income Emerging L/S segregated segment within Pictet TR-Diversified Alpha from 13.07.2016 to 08.08.2019 then net returns of Pictet-TR Sirius I USD to present. The Pictet TR-Diversified Alpha fund is a Luxembourg SICAV that invests primarily in market-neutral strategies managed by selected Pictet AM teams. These investment strategies have exposure to various financial assets (equities, bonds and other debt-related securities, financial derivatives) globally. **JPM 50/50 HC/LC EMD Index: 50% JP Morgan EMBIGD (EM-HC) + 50% JP Morgan GBI-EM GD (EM-LC). The Blended EM index is shown for comparison purposes only. This index does not influence portfolio construction and the strategy's investment universe extends beyond the components of the index.
 Note: All performance data are shown in USD, gross of fees and based on weekly returns. Please note that a standalone vehicle will be subject to fees and expenses such as management, performance, administration, operational etc. that will result in lower net returns for your investment. Past performance is not a reliable guide to future performance. The value of investments and the income from them may fluctuate and investors may not get back the full amount invested. Source: Pictet Asset Management, Bloomberg as at 31.08.2022.

Sirius Displays Low Correlation To Major Indices

Correlation (weekly)

	FIXED INCOME EMERGING L/S	GBI-EM GLOBAL DIVERSIFIED	EMBI GLOBAL DIVERSIFIED	CEMBI BROAD DIVERSIFIED	BLOOMBERG BARCLAYS GLOBAL AGGREGATE BOND INDEX (\$)	MSCI EM (\$)	MSCI WORLD (\$)	S&P 500
FIXED INCOME EMERGING L/S	1.00							
GBI-EM GLOBAL DIVERSIFIED	0.23	1.00						
EMBI GLOBAL DIVERSIFIED	0.24	0.77	1.00					
CEMBI BROAD DIVERSIFIED	0.23	0.69	0.90	1.00				
BLOOMBERG BARCLAYS GLOBAL AGGREGATE BOND INDEX (\$)	-0.05	0.56	0.53	0.52	1.00			
MSCI EM (\$)	0.22	0.71	0.61	0.58	0.17	1.00		
MSCI WORLD (\$)	0.20	0.61	0.68	0.61	-0.06	0.74	1.00	
S&P 500	0.15	0.51	0.61	0.56	-0.16	0.65	0.98	1.00

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Conclusion



- › Extensive **experience of managing EM HF strategy through all market cycles**
- › Combining highly **complementary investment backgrounds, knowledge and market contacts**

- › **Unconstrained long/short strategy** delivering alpha from both macro and relative value sources
- › **Disciplined approach to EM risk taking. Controlled beta exposure limiting directionality**
- › Using **liquid instruments and derivatives** to implement views with an **asymmetric profile** and **low correlation** to major risk factors

- › **Strong track record** of achieving superior risk-adjusted returns in both positive and negative market environments
- › **Positive absolute performance** since inception (70% of months were positive)
- › **Low maximum drawdown** (-2.87%) and **strong Sharpe ratio** (1.46) since strategy inception
- › **Uncorrelated alpha** returns **providing attractive diversification benefits**

Source: Pictet Asset Management, as at 29.07.2022.

✓ We do

- Aim for repeatable alpha in all markets
- Build high conviction positions through deep fundamental work
- Believe in diversification and minimising correlations
- Emphasise portfolio construction and risk
 - Manage portfolio beta within a range
 - Optimise trade sizing and asset selection
- Adhere to disciplined risk and liquidity management
- Spend carry on optionality to protect downside
- Focus on minimising the downside
- Retain an open mind to unearth alpha anywhere
- Actively leverage Pictet's extensive EM expertise
- Encourage a culture of challenge within the team

✗ We don't

- Want to be hostage to EM beta/exposure bias
- Mind entering trades early or out of consensus
- Chase the big, homogeneous macro themes
- Focus on the largest markets or biggest carry trades
- Blindly use VaR without applying our own future volatility expectations
- Lose sight of scale at the expense of agility

Q & A

Appendix

Investment Team

	NAME/ ROLE	EXPERIENCE	CAREER HISTORY / ROLES	EDUCATION
	<p>KETAN GADA (London) Head of Total Return EM Fixed Income</p> <p>Focus: S. Africa, Nigeria, Argentina, Brazil, Mexico, Colombia, China, India, Philippines, Thailand</p>	24 years of experience	<ul style="list-style-type: none"> › 2016: Pictet Asset Management › 2015-2016: Quadra Capital Partners / Partner and Senior Portfolio Manager - EM Long/Short › 2005-2014: BGI-Blackrock / Managing Director, Portfolio Manager – EM strategies within the Fixed Income Global Alpha hedge fund › 1998-2005: Cargill / Black River Asset Management, Portfolio Manager 	<ul style="list-style-type: none"> › Master of Business in Finance and Strategic Management from the University of Minnesota › BA in Finance from the University of St. Thomas
	<p>RAV SINGH (London) Senior Investment Manager</p> <p>Focus: Russia, CIS*, Chile, MENA, Indonesia, Malaysia, Taiwan</p>	17 years of experience	<ul style="list-style-type: none"> › 2018: Pictet Asset Management › 2012-2018: JP Morgan Asset Management / Portfolio Manager - EM Total Return › 2007-2012: Morgan Stanley / EM Credit Trader › 2005-2006: Bank of America / ABS structuring 	<ul style="list-style-type: none"> › Masters in Finance from the University of Cambridge › BSc in Statistics from the University College London
	<p>THIBAUT NOCELLA (London) Senior Investment Manager</p> <p>Focus: Turkey, CE-4*, Sub-Saharan Africa, Singapore, S. Korea, Pakistan, Peru</p>	12 years of experience	<ul style="list-style-type: none"> › 2018: Pictet Asset Management › 2013-2018: Insight investment / Portfolio Manager – Absolute Return EM Fixed Income › 2010-2013: BNP Investment Partners / Portfolio Manager EM Fixed Income and global FX 	<ul style="list-style-type: none"> › Masters in Financial Markets from SKEMA Business School › Advanced Master from ESSEC Business School
	<p>GARETH PAYNE (London) Head of Client Portfolio Management – Credit & Alternative Fixed Income</p>	15 years of experience	<ul style="list-style-type: none"> › 2019: Pictet Asset Management › 2012-2018: Man GLG / Client Portfolio Manager Credit & Convertibles › 2008-2012: Man FRM FoHF/ Business Development › 2007-2008: Lehman Brothers 	<ul style="list-style-type: none"> › Masters in Management from the University of Cambridge › BA from the University of Cambridge

Source: Pictet Asset Management, 31.08.2022 *CE-4: Czech Rep, Poland, Romania, Hungary. CIS: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan

Strategy Allocation Example*



Core Themes (~9 months)

- Thematic macro positions
 - LATAM disinflation
 - CEEMEA reflation
 - South Africa political change
 - Turkey Crisis

Relative Value (~3 months)

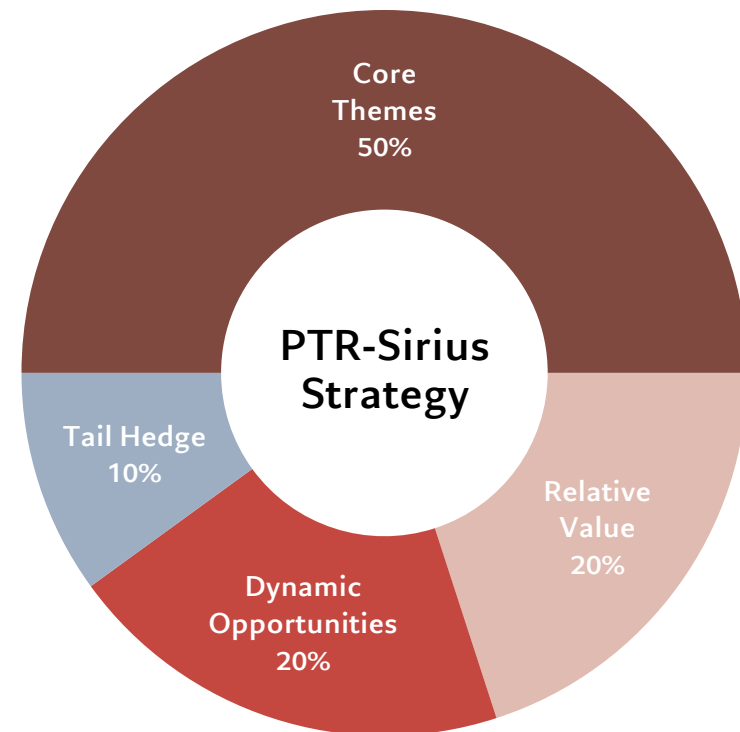
- Lower-beta trades that exhibit low directionality to the market (i.e. curve, asset swap, bond-CDS basis, butterfly trades)
 - Long Hungary asset swap
 - Brazil curve steepeners

Dynamic Opportunities (~1 month)

- Short-term tactical driven trades with higher turnover and lower individual risk sizing
 - Short USD/ZAR
 - Long USD/CNH

Tail Hedge

- Trades to protect the overall portfolio
 - Short AUD/JPY
 - Long CDX EM protection
 - Long US Treasury Calls



*These are internal guidelines only which are subject to change at any time without prior notice. For complete investment rules and limits, please refer to the fund's prospectus. The above positions are by no means exhaustive but give an indication of the positioning of the portfolio at the date of this presentation. Source: Pictet Asset Management

Current Portfolio Allocation *

PICTET ASSET MANAGEMENT

Core Themes	Relative Value
<p>IG/HY Credit</p> <ul style="list-style-type: none"> › Long Pemex (quasi-sov) bonds › Long Argentina USD bonds <p>Core Rate Exposures</p> <ul style="list-style-type: none"> › Paid Poland and Hungary Rates › Paid India, Taiwan, Korea Rates › Paid Japan Rates › Long Brazil Rates <p>FX</p> <ul style="list-style-type: none"> › Short PHP vs USD › Short TRY vs USD › Long BRL vs USD 	<p>Asset Swaps</p> <ul style="list-style-type: none"> › Long South Africa bonds vs IRS <p>FX</p> <ul style="list-style-type: none"> › Short HUF vs Long PLN › Long SGD vs basket <p>Curve Trade</p>
Tail Hedge	Dynamic Opportunities
<ul style="list-style-type: none"> › Short Mexico & Chile via CDS › Short Brazil & Turkey USD bonds › S&P 500 put spreads › Long USDPLN downside options 	<ul style="list-style-type: none"> › Short TWD vs USD › Long MXN vs EUR through options

*For illustrative purposes only. Portfolio allocation is not comprehensive but rather a snapshot of key themes/trades. An unadjusted weighted average rate at which one country's currency exchanges for a basket of multiple foreign currencies Source: Pictet Asset Management as at 31.08.2022.

Inflation to pressure yields higher:

- CEE inflation continues to be high, with wage pressures continuing
- Asian inflationary pressures linked to food and energy putting pressure on rates in the region, as LATAM inflationary pressures stabilising. Paying Asian rates and receiving Latam rates is the next leg.
- **We continue to pay selected CEE and Asia vs Latam** as the hiking cycle matures

EM Sovereign USD Debt:

- HY spreads looking attractive on valuation grounds, but tightening global liquidity, issuance expectations and outflows may keep valuations high.
- Will be monitoring a turn in liquidity conditions or valuations to start buying EM sovereign bonds
- **We will be running net short spread duration in our long short framework**

FX:

- We have been playing long dollar over past months, but believe that the dollar move may stabilise if ECB accelerates rate hikes.
- Against this backdrop many EM countries have positive real yields, assets are cheap and commodities are firm.
- In this environment **we will seek to be long short without a huge directional bias in DXY as we see many idiosyncratic stories to play.**

Geopolitics:

- 2022/23 has potential for more geopolitical noise and volatility. US midterms, China party congress, Brazil and Hungary elections on the agenda
- Russia/Ukraine tensions – our base case was full scale conflict would be avoided. Now it is becoming likely we have protracted localised conflict
- Post-Covid as liquidity withdrawn, elections become harder to call and **social unrest risk rises.**
- **Socio-political risks will remain in focus**



Long/Short at a Glance

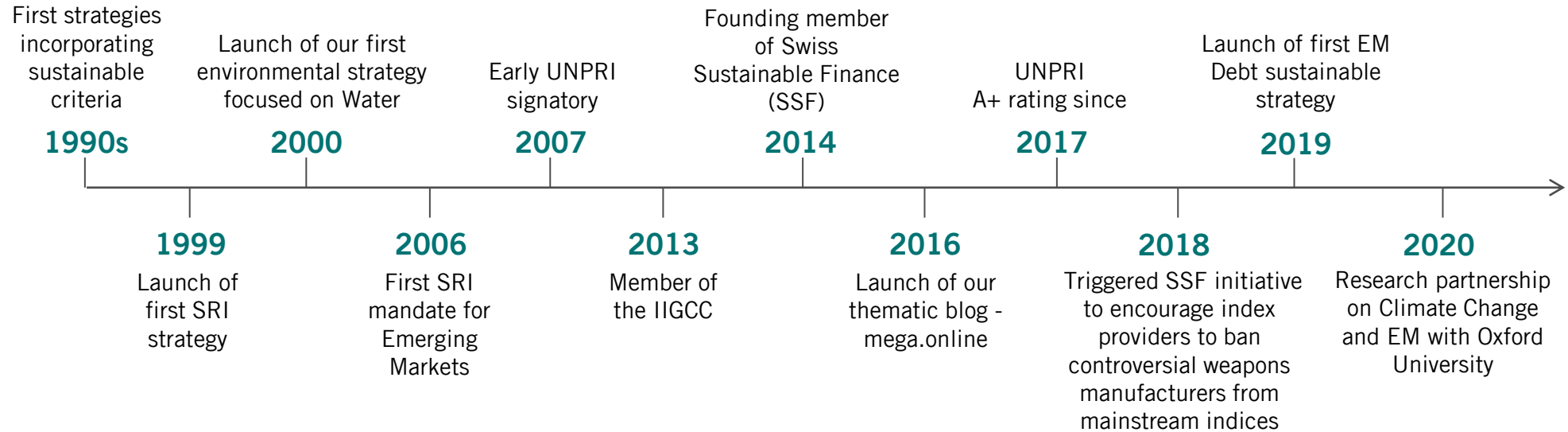
- > Leading European HF Manager
- > Fundamental approaches with capital preservation culture
- > Strict capacity management to preserve alpha
- > Longevity and stability



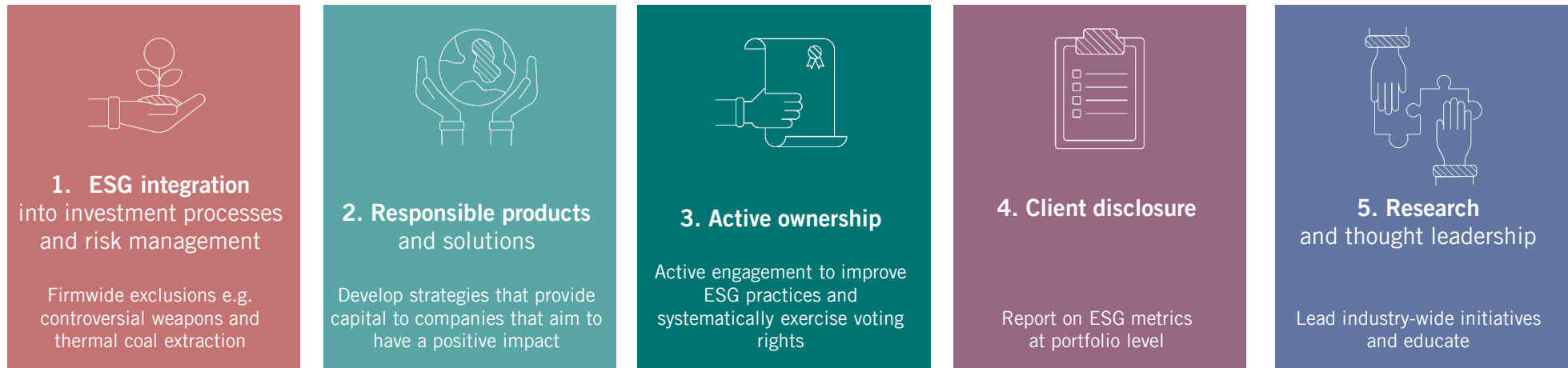


ESG at Pictet Asset Management

Key milestones



Our approach: five main pillars



Source: Pictet Asset Management, 30.09.2021



Portfolio Construction

INVESTMENT TEAM

DAILY RISK REPORTS

- › **Live P&L monitoring** at position and portfolio level
- › **Review of exposure and risk limits** on VaR and vol measures, KRD (duration) exposures, FX exposures, factor based correlation, scenario/stress testing and inter-strategy correlation
- › **Liquidity analysis:** ability to liquidate vast majority of portfolio within 3 business days with less than 1% transaction cost to NAV

ACTIVE SIZING & STOP-LOSS APPROACH

- › **Positions sized to conviction level** based on risk/reward of trade, likelihood of hitting targets, consensus between the portfolio managers, complementarity and overall fit to portfolio
- › **Stop-loss framework and return target** at position and portfolio level
- › **Any stop-loss being hit** prompts review of portfolio and action plan based on opportunity set and current market environment

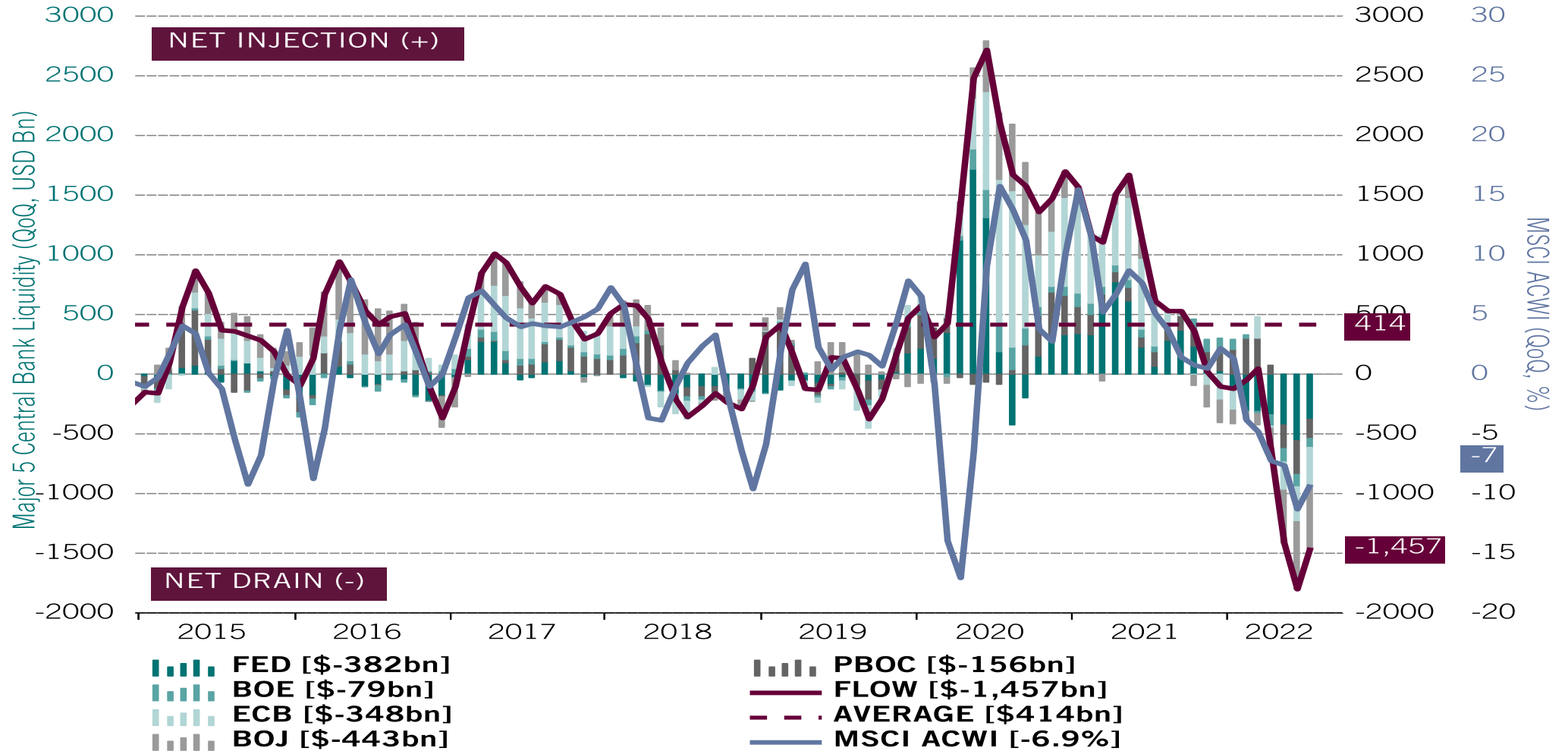
INDEPENDENT RISK MANAGEMENT TEAM

FORMAL PORTFOLIO REVIEW

- › **Independent** risk monitoring with a risk manager dedicated to the strategy
- › A **robust** risk management process, fully integrated in portfolio management activities
- › **Combining** detailed risk and performance analyses
- › Risk and performance **daily** monitoring, **weekly** reviews with investment teams, **monthly** meetings with CIOs, **bi-annual** quality reviews with the Head of Investments.

Active Risk Management

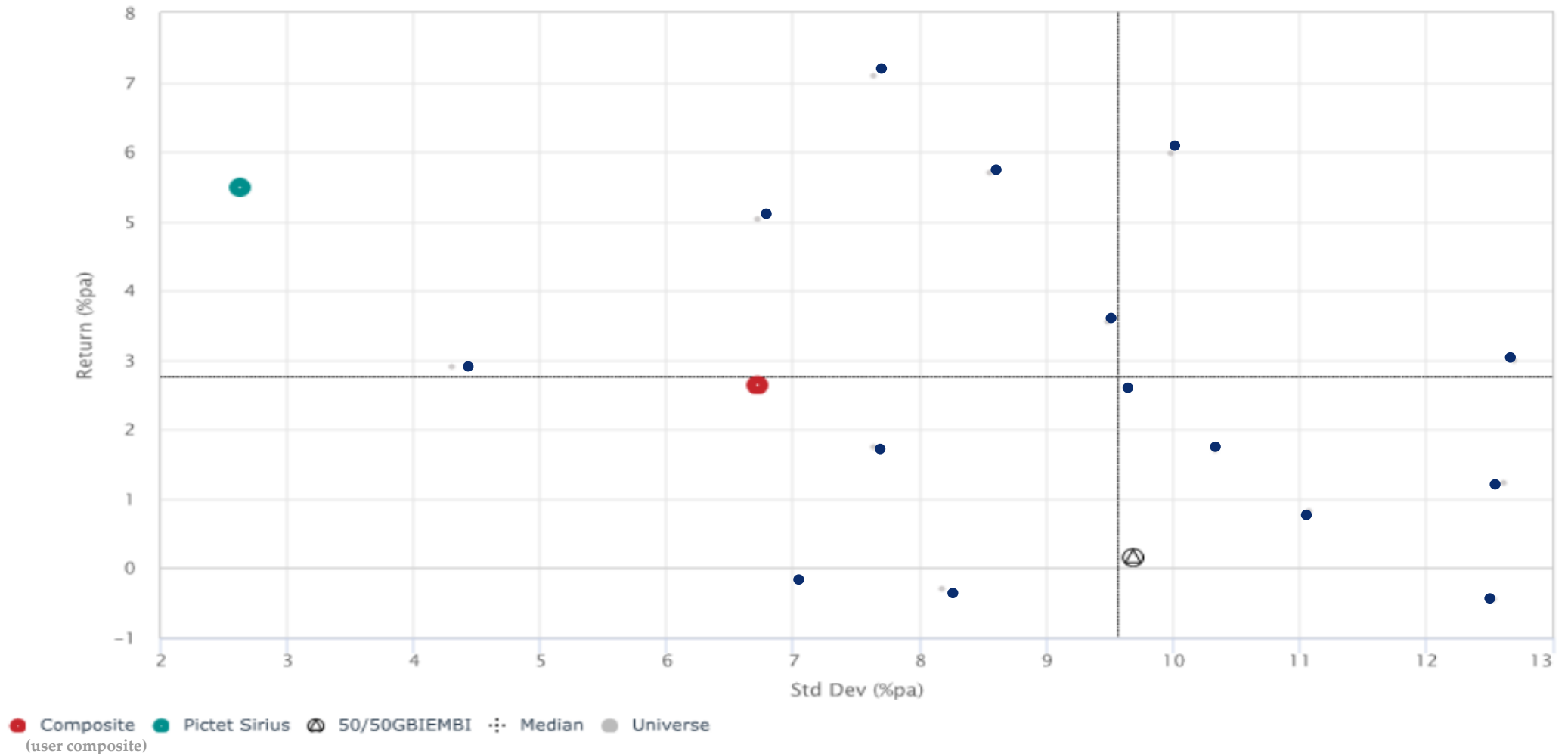
Global Central Bank Liquidity (QoQ, USD Bn) v. Global Equities (QoQ, %)



Note: Major 5: Fed, BoE, ECB, BoJ, PBoC.
 Source: Refinitiv Datastream, Pictet Asset Management
 As at 20th August 2022

Sirius vs. a Total Return in a portfolio context

- Below shows effect of adding **Pictet TR-Sirius** to long only EMD in an equally weighted portfolio since 2016
- Adding Sirius as a **complement to existing EMD holdings** can have a powerful, positive impact on risk adjusted returns



Source: Mercer. The representative strategy is the Fixed Income Emerging L/S segregated segment within Pictet TR-Diversified Alpha from 13.07.2016 to 30.04.2022 (since inception of strategy). The Pictet TR-Diversified Alpha fund is a Luxembourg SICAV that invests primarily in market-neutral strategies managed by selected Pictet AM teams. These investment strategies have exposure to various financial assets (equities, bonds and other debt-related securities, financial derivatives) globally. Past performance is not a reliable guide to future performance. The value of investments and the income from them may fluctuate and investors may not get back the full amount invested. Source: Pictet Asset Management, 13.07.2016 to 30.08.2022. All data expressed in USD gross of fees.