

# PICTET - SECURITY - GBP

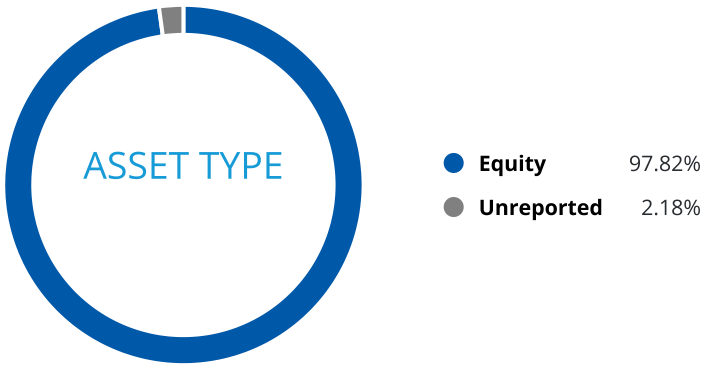
INVESTMENT RESEARCH NOTE  
MARCH 2024

Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. You should not act on any of the information without seeking professional advice. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA).

SUMMARY

Pictet Asset Management has a long tradition of thematic investing starting from its beginnings in 1995. They manage c.14 thematic products today using a team-based approach and concentrated number of holdings. The strategy is managed by Pictet's thematic team with over 35 investment professionals with an average of over 15 years industry experience.

This is a sub-fund of their Global Megatrend fund and seeks capital growth by investing at least two-thirds of its total assets in the shares of companies that operate in the physical security, security services and IT service sectors. The core 'Megatrends' are related to secular changes in society, the economy or environment. These megatrends are: demographic development, sustainability, economic growth, commercialisation and health. Core drivers for the Fund are: Innovation (sheer volume of connected devices), Urbanisation (especially in EM countries) and Regulation (i.e. testing and inspection of equipment). The strategy leans on Pictet's well-established thematic expertise, focusing on the globalisation trend allowing ease of transfer of people across the world. Such trends include government security infrastructure, enhanced internet security and private sector businesses. The fund has a focus on small and mid-cap stocks with a high growth agenda and niche product ideas. The philosophy and bottom-up, investment approach is similarly tailored towards long term investing and leads to a growth orientated portfolio with a close eye on value and quality. The Fund looks for top-line growth among its holdings of 7-9% CAGR ('Compounded Aggregate Growth Rate'). Since 2008, the Security universe growth has been c.6% CAGR vs MSCI World at 3.7%.



INVESTMENT PROCESS

Each 'megatrend' strategy follows an identical investment process. It is based on applying a bottom up, growth biased (GARP) approach to identify the most attractively valued and highest quality shares within the identified universe. Companies with the opportunities for growth above consensus are sought whilst considering strongly the valuation and timing of the purchase. The three core areas of investment are categorised as Physical Security, It Security and Security Services. The former two are considered more cyclical by nature than the more defensive Security Services (i.e. payment processing). The Fund would position the portfolio in more volatile times by adjusting the weightings of existing holdings - so, for example in 2008 and 2018, it enhanced the portfolio's defensive stance by increasing exposure to security services stocks relative to the other two segments.

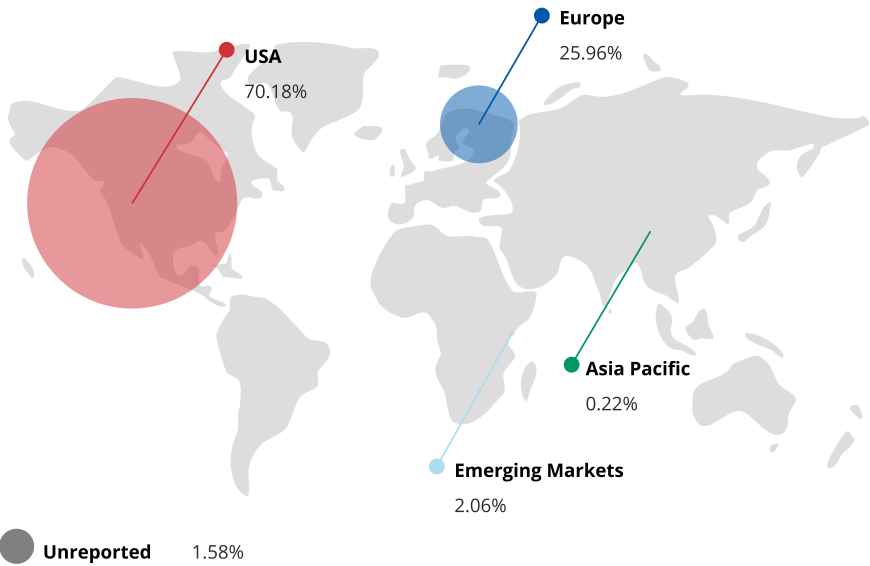
The final portfolio is a concentrated structure of between 40-70 high conviction names. Different decision weightings in terms of importance are applied to the characteristics sought (management, business franchise, attractive fundamentals) dependent on the type of stock category a holding falls into - either Blue Chip (positive initial weight) or Opportunity (zero initial weight as holdings are typically not pure or liquid enough). As an example, within the Opportunity component, more emphasis is placed on the management team and business franchise relative to the company fundamentals.

Portfolio construction is based on stock selection, which is subsequently modified by risk considerations to derive the final regional and sector weightings. From the universe of best ideas, the portfolio construction process begins with an initial starting weight of 6% per stock (within the individual thematic portfolios). This is applied to each holding with a quantitative risk management tool being used to provide adjustments that consider the level of thematic exposure provided from each company (purity - i.e. percentage of sales achieved directly in the security space must be at least 20%), expected volatility and liquidity risk. Companies with more than 5% of their sales coming from the defence and offensive military industry are excluded. Management quality is assessed through a scoring mechanism while valuations support that score using a discounted cash flow approach as well as peer ratio analysis.

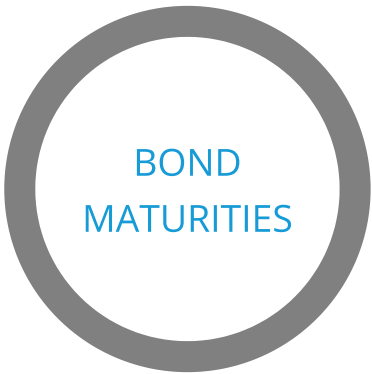
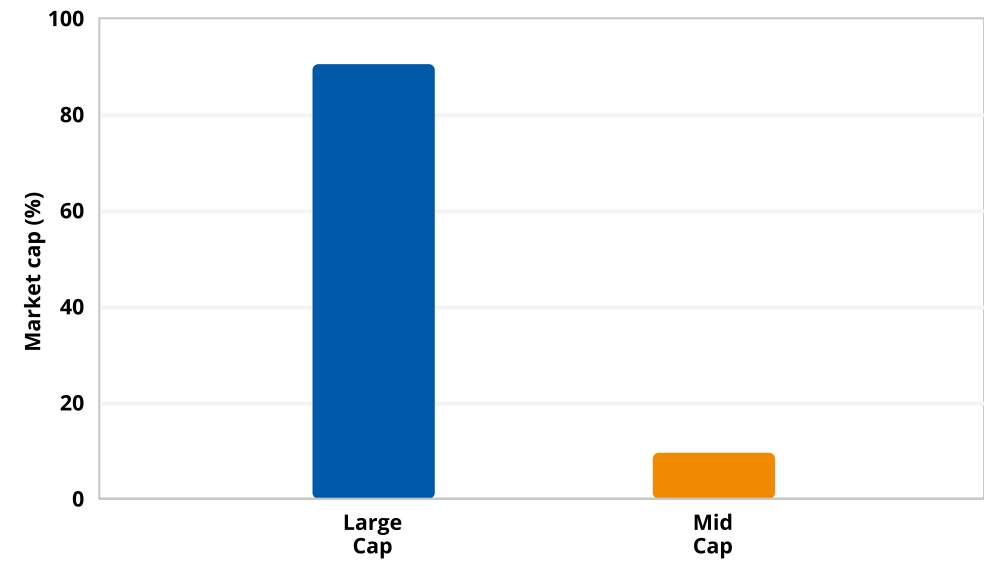
The investment process allows for a number of other adjustments, one key criteria being an ESG score where companies with higher ESG risk being penalised through a higher discount rate within the research process. The ESG scoring is integrated into the management scoring as part of the quantitative stage of the process.

# AGGREGATED NET EXPOSURE

## REGIONAL EXPOSURE



## EQUITY MARKET CAP (%)



BOND  
MATURITIES

Not Applicable



BOND  
RATINGS

Not Applicable

# OVERALL PERFORMANCE

● PICTET-SECURITY-IDY GBP    ● MSCI World Net Total Return Hedged GBP

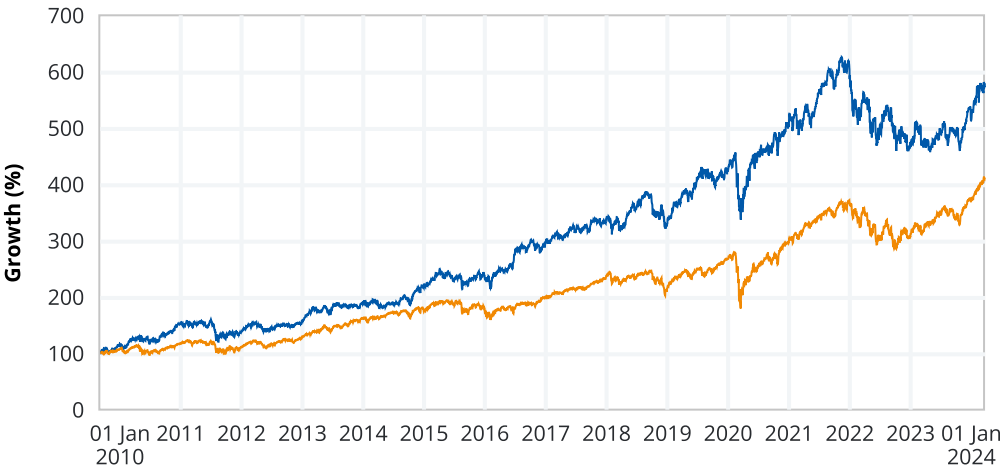
## GROWTH (%) - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024



## GROWTH (%) - FROM INCEPTION

11 Sep 2009 - 29 Mar 2024



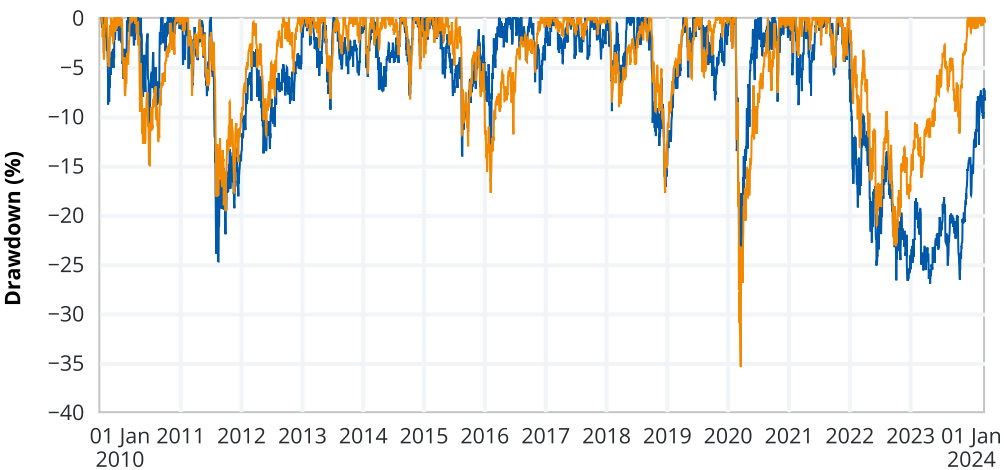
## DRAWDOWN (%) - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024



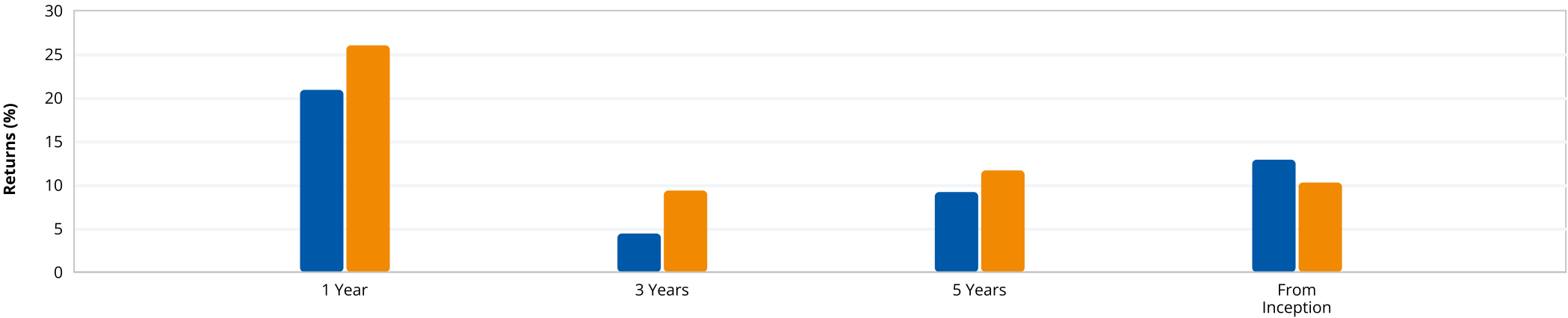
## DRAWDOWN (%) - FROM INCEPTION

11 Sep 2009 - 29 Mar 2024



# RETURNS

● PICTET-SECURITY-IDY GBP    ● MSCI World Net Total Return Hedged GBP



## MONTHLY BREAKDOWN AND YEARLY TOTALS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2024	1.49	5.88	0.57										8.07
2023	4.40	0.75	-1.59	-3.26	2.79	4.46	1.55	-1.59	-0.48	-6.04	8.47	6.11	15.64
2022	-12.08	-1.98	5.73	-2.00	-6.92	-6.74	9.70	-0.31	-7.24	2.12	-3.16	-3.36	-24.84
2021	-0.26	0.13	2.03	4.49	-0.99	5.76	2.98	4.41	-2.50	2.52	2.21	0.79	23.45
2020	2.52	-8.17	-6.53	10.60	8.49	1.17	0.94	2.67	1.28	-4.14	8.51	2.31	19.32
2019	5.37	4.95	3.54	3.92	-2.75	4.95	7.91	-1.51	-1.17	-2.57	4.05	-0.87	28.19

Capped to 6 years.

## ANNUALISED ROLLING RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
PICTET-SECURITY-IDY GBP	20.91	4.43	9.19	12.90
MSCI World Net Total Return Hedged GBP	26.02	9.36	11.67	10.28

## CUMULATIVE RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
PICTET-SECURITY-IDY GBP	20.73	13.80	54.92	480.23
MSCI World Net Total Return Hedged GBP	25.80	30.60	73.28	312.78

● PICTET-SECURITY-IDY GBP    ● MSCI World Net Total Return Hedged GBP

PERFORMANCE - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024

	PICTET-SECURITY-IDY GBP	MSCI World Net Total Return Hedged GBP
RETURNS (%)	20.91	26.02
VOLATILITY (%)	14.99	9.63
ALPHA	-0.23 *	
BETA	0.78 *	1.00
CORRELATION	0.74 *	1.00
SHARPE RATIO	1.02	2.09
SORTINO RATIO	1.50	3.20
MAX DRAWDOWN (%)	-10.21	-9.25

\*Calculated over a 3 year period where history permits.

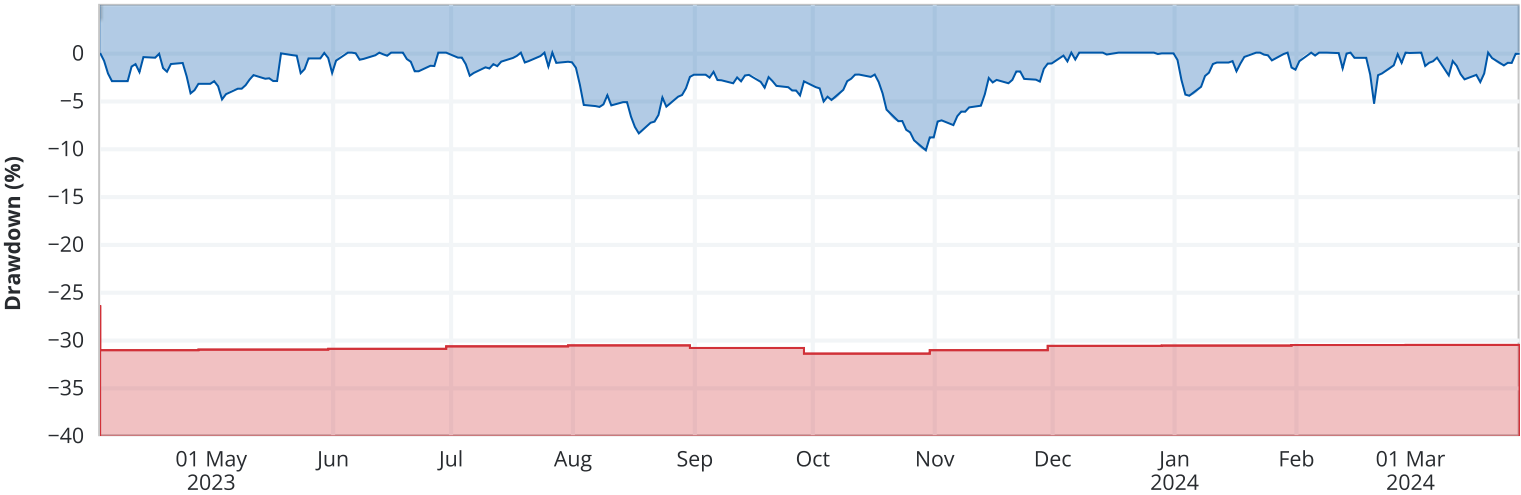
PERFORMANCE - FROM INCEPTION

11 Sep 2009 - 29 Mar 2024

	PICTET-SECURITY-IDY GBP	MSCI World Net Total Return Hedged GBP
RETURNS (%)	12.90	10.28
VOLATILITY (%)	17.70	14.81
ALPHA	0.40	
BETA	0.76	1.00
CORRELATION	0.73	1.00
SHARPE RATIO	0.67	0.62
SORTINO RATIO	0.95	0.86
MAX DRAWDOWN (%)	-26.97	-35.42

SIMPLE STRESS TEST DRAWDOWN (%)

3 Apr 2023 - 29 Mar 2024



Stress test notes

The chart shows the calculated drawdown over a trailing 12-month period. The Review Point is a potential intervention point. Any drawdown above this line indicates a typical drawdown in a normal market cycle. Should the drawdown exceed the Review Point, then this indicates that market conditions may be abnormal. This is the point at which immediate action should be considered.

Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. You should not act on any of the information without seeking professional advice. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA).