

DECEMBER ECHOED FULL YEAR

China weakness limited gains in December

Markets. In December, emerging market equities – as measured by MSCI Emerging Markets in euros – rose by 0.84%, which developed market equities (MSCI World) rose by 3.21%. Emerging market equities saw-sawed during the month, as markets continued to digest the more transmissible Omicron variant, as well as prospects of faster tightening by the U.S. Fed.

Chinese equities were relatively weak, with MSCI China down close to 4%. COVID infections rose, and although the Central Economic Work Conference in early December was received positively by markets, they fell back after seeing little in the way of monetary and regulatory easing. At the other end of the spectrum, Mexican equities rose around 12%, thanks partly to currency strength.

Looking at sectors, December saw a mixed pattern. Information Technology led the way, rising over 5% thanks in part to strong returns at benchmark heavy-weight Samsung Electronics, and another Korean memory maker, SK Hynix. Commodities mostly recovered from their Omicron inspired sell off with Brent crude oil, copper and iron ore all rising during the month. As such, the Energy sector was among the strongest.

The Consumer Discretionary sector was among the weakest, falling almost 6%: the sector was pulled down by weakness at various internet names, such as the giant Alibaba, and also JD.Com and Meituan. Electric vehicle company Nio, which trades at lofty valuations, also fell sharply. In a sense, December echoed much of 2021, in which some of the more expensive parts of the market saw profit taking.

Fund ended month and year strongly

The Portfolio. In December, the fund rose by 2.78%, ahead of both MSCI Emerging Markets (up 0.84%) and MSCI Emerging Markets Value (up 2.49%).

This means that, over the full year in 2021, the fund rose 13.36%, ahead of both MSCI Emerging Markets (up 4.86%) and MSCI Emerging Markets Value (up 11.90%). It was, then, a very strong year for value overall, and it was encouraging to see the fund perform strongly in such an environment.

In December, the fund's strong relative showing was primarily explained by both its value style, and its selection of individual securities. The fund's country and sector allocations had a relatively limited impact on its returns relative to the wider market.

Among the stronger contributors for the fund in December, was Korea memory maker SK Hynix. The market appeared increasingly positive on the outlook for memory pricing, with demand strong across major applications and inventory relatively low. We see SK Hynix as a leading player for the long term in this now highly consolidated industry.

China Merchants Ports – a port operator – performed strongly, as the outlook for port tariffs improved – another example of a more cyclical company starting to see the benefits of the economic recovery.

Among other strong performers were LG Electronics and South African bank Absa Group.

See performance and fund data

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Strategy

Ethical Emerging Markets Value invests in equities issued by companies from Emerging Markets, cf. the fund's prospectus. Stocks are selected using the value strategy, meaning that through careful fundamental analysis, the team strives to identify companies that trade at healthy discounts relative to intrinsic value. A risk-aware approach to the portfolio construction ensures a well-diversified portfolio and broad exposure across sectors and countries.

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