

Ethical Emerging Markets Value

EQUITY

Positive returns for EM continued

Some rotation from value to growth

Markets. In June, emerging market equities (as measured by MSCI Emerging Markets in euros) rose by 3.28%, while developed market equities (MSCI World) gained 4.64%.

Emerging markets were under pressure early in June, as discussions continued around potential tapering by the U.S. Fed to address inflation concerns. However, as the month progressed, the Fed sent more dovish tones, framing inflationary pressures as more transient and downplaying the likelihood of an early rate rise. This bolstered market sentiment towards month end, but also flattened the U.S. yield curve. As we have noted previously, a flatter curve, and lower expectations for inflation, can be supportive of growth stocks versus value stocks. Indeed, in June some of the strongest contributors to market returns were more in growth territory, including internet heavyweights Alibaba, Meituan, and Kakao Corp.

That flatter curve in the U.S., and the implications for bank earnings, may partly explain why the financial sector was among the weaker sectors in emerging markets. Meanwhile, Energy was strong, as oil prices rose to USD 75 a barrel, the highest since late 2018. Air travel continues to increase as economies reopen, and there were also signs that Iranian supply may take longer to officially return. This meant that commodity-heavy markets such as Brazil, Russia, and Colombia generated the strongest returns in June, all rising between 7% and 9%.

China offered more limited – but still positive – returns of around 3.6%. Market sentiment was reasonably positive, ahead of the 100th anniversary of the Chinese Communist Party in early July. In China, as elsewhere, the market rotated

towards growth. South Africa was among the weakest countries

South Africa and Peru were both relatively weak, given their relative sensitivity to metals prices, which weakened in June, but Peru fell around 9% after the presidential runoff election early in the month placed leftist candidate Pedro Castillo marginally ahead of Keiko Fujimori – a result which Fujimori contests.

Fund returns similar to value universe

The Portfolio. In June, the fund rose 2.50%, somewhat less than MSCI Emerging Market's 3.28%, but in line with the 2.51% returns of MSCI Emerging Market Value. This means that year-to-date, the fund has gained 18.88%, compared to 10.86% for MSCI EM, and 13.51% for MSCI EM Value.

From a sector perspective in June, the fund suffered somewhat from having relatively high exposure to banks, which weakened amid a flattening yield curve. However, this was to some extent offset by the fund having relatively little exposure to metals, which suffered.

Looking at individual stocks, the biggest negative contributor relative to MSCI Emerging Markets was simply not owning the giant Alibaba Group, which rose sharply.

Among the fund's strongest contributors were Ginko International, a Taiwanese contact lens maker benefitting from rising demand for colour contact lenses in China, and Geely Automobile, an independent car assembler in China. Finally, Soho China, a real estate company, rose sharply on news that Blackstone was again approaching with a takeover bid at a significant premium to the then share price.

See performance and fund data [Click here >](#)

Return is calculated gross of fees and excluding swing.

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.