

Ethical Emerging Markets Value

EQUITY

Strong month for EM value stocks

EM ahead amid inflation headlines

Markets. In May, emerging market equities (as measured by MSCI Emerging Markets, in EUR) rose 0.74%, outperforming developed market equities, which fell 0.12%. It was a month of two halves. EM equities fell by around 4% during the first two weeks, only to rally by over 5% in the final two weeks.

The initial selloff was linked to inflation, with initial U.S. inflation figures for May above expectations at 4.2%, raising concerns of tighter monetary policy worldwide. This pushed markets down, but investors continued to rotate into value stocks, limiting the declines for value. We have noted for some time that value stocks could benefit from expectations of inflation, and potential for rising – or just stabilizing – interest rates. Markets were also impacted by Chinese governmental regulations on the tech sector, and rising COVID-19 cases in countries such as India, Brazil, Taiwan and Malaysia.

As May continued, equities rallied. There was more positive economic news, and weakness in the USD also helped emerging markets. By month end, EM currencies had generally increased against the dollar, with – for example – the South African Rand up 5.5% and the Brazilian Real up 4.2%, and indeed those two countries were also among the strongest performing equity markets in Euro terms.

Indian equities rose nearly 10%. The second COVID wave peaked early in May, but markets responded to the outlook for improved vaccinations and lifting of restrictions, and an earnings season that did not disappoint.

Despite rallying late in the month, Chinese equities fell 0.84% in May. This was primarily because of falls in the internet sector, triggered both by increased policy scrutiny, and market

concerns after the CEO of benchmark heavyweight Meituan posted a poem on social media that was interpreted by some to criticize the government. (Our fund does not invest in Meituan).

Diverse drivers pushed fund ahead

The Portfolio In May, the fund rose 2.99%, well ahead of the 0.74% rise in MSCI Emerging Markets, and also ahead of the 2.29% increase in MSCI Emerging Markets Value. This means that so far in 2021, the fund has gained 15.98%, compared to 7.34% for MSCI EM, and 10.73% for MSCI EM Value.

The fund's relative strength in May was explained by an array of different drivers. From a style perspective, the fund benefited somewhat from its value tilt. Simply not owning Alibaba – which fell around 9% – was significantly positive.

At a country level, there was a minor benefit from having relatively high exposure to Latin America. There was also a benefit from the fund having relatively high exposure to Latin America, with Peru and Brazil among the strongest markets at the benchmark level, and even stronger for our holdings there.

However, the largest driver was strong individual performances from certain holdings, as diverse as Mexican bank Grupo Financiero Banorte, South African clothing retailer Mr Price, and Chinese holding Zhuzhou CRRC Times Electric, which makes electric control systems for trains, but is increasingly seen as having potential in making semiconductors for use in electric vehicles and elsewhere.

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

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.