

MARKETS FLAT DESPITE RISING RISK

Emerging markets outperformed developed

Markets. During January, emerging market equities shrugged off the rising rate concerns that depressed developed markets. The MSCI Emerging Markets index declined by 0.48% in EUR in the month, significantly outperforming the MSCI World Index which declined by 3.92%.

Chinese equities were relative underperformers in the month, with the MSCI China index declining by more than 1.5%. Declines in Chinese equities, part of a trend that has been ongoing for twelve months, were due to concerns over a slowing Chinese economy as well as fears over the impact of continued localized COVID-19 lockdowns. The Bank of China has been loosening monetary policy; however, this loosening has yet to stabilize local equity markets.

Russian equities were very weak in the month, with MSCI Russia declining by over 7% during January, although at one point Russian markets had sold off by almost 18% before rallying in the final week of the month. The rising geopolitical risks related to Ukraine were the driver of Russian equities, with markets concerned over the possible impact from any potential sanctions imposed by the U.S. and European Union on Russia, in particular on the financial system.

Brazilian equities were significant outperformers in the month, with the MSCI Brazil index rising by over 12%. The rise in equities was driven by the belief that the Brazilian central bank was reaching the end of its tightening cycle and low valuations attracting foreign capital from other emerging markets.

Portfolio benefitted from style and selection

The Portfolio. During January, the portfolio returned 3.49%, significantly above the MSCI Emerging Market return of -0.48%. The performance of the fund was also ahead of the MSCI Emerging Market Value Index, which returned 0.69%. The outperformance of the Value index demonstrated that the style rotation from growth to value, also evident in developed markets, was also a key component of outperformance. However, the fund also benefitted from very strong selection returns that drove the outperformance relative to the value index.

Along with the value style exposure, the portfolio also benefitted from an underweight to China, which as discussed above was an underperforming market, as well as an overweight to Brazil.

In addition to the significant performance contribution from style and the more modest contribution from country allocation, the portfolio benefitted from strong performance in a number of individual holdings.

Banco do Brasil, a Brazilian bank had strong performance on the back of rising market sentiment in Brazil. Despite the overall weakness in Chinese equities, portfolio holding China Lesso, a building materials company, performed well during the month, benefiting from lowered concern over the Chinese real estate sector.

Other strong performers in the month included Absa Group of South Africa and Indian bank Axis Bank.

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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