Fund report, February 2022
European Value
Equities

Sparinvest

# MARKETS ROILED BY RUSSIA

### Russia ended uncertainty with Ukraine invasion

Markets declined during the month as the Russian military build-up on the border of Ukraine proceeded. As the world attempted to decipher the ultimate intentions of Russian President Vladimir Putin, the sell-off accelerated. In the pivotal final week of the month, European and U.S. allies initiated sanctions in response to Russian recognition of two breakaway Ukrainian republics. The drumbeats of war reached their tragic crescendo on February 24 as the Russian invasion of Ukraine began.

Equities rallied in the final week of the month despite the invasion and subsequent imposition of further sanctions that ejected large swathes of the Russian economy from the global market. A move into perceived safe haven assets and a rise in global commodity prices drove equity markets. The MSCI World Index fell by 2.72% in the month, although at its low for the month it had declined by over 5%. European markets were amongst the weakest, with German and French equities hit particularly hard. In contrast, the UK market was an outperformer, with the MSCI UK index rising slightly in the month reflecting its greater commodity exposure as well as some safe haven characteristics relative to other European markets.

Similar to equities, bond and currency markets focused on low risk assets. Classic safe havens such as the U.S. Dollar and U.S. Treasuries both strengthened markedly in the final week of the month. Commodities rallied, with the main attention on oil and gas and certain metals where Russia is a major exporter. Brent crude oil breached the $100/barrel level at the end of the month. Aluminum and nickel also experienced significant upward price moves reflecting Russia's role as a major producer of the metals.

### Underperformance late month

The Portfolio returned -4.55% in the month, underperforming both the MSCI Europe index return of -3.01% as well as the MSCI Europe Value index, which also returned -3.01%. The underperformance was concentrated in the late part of the month after the market focus shifted away from the underlying economic conditions towards Russia.

Consumer Staples and Health Care outperformed, reflecting their safe haven nature. Utilities performed even better, but with large return differences as some suffered from Russia exposure while others benefitted from increased pressure on Europe to transition away from imported fossil fuels towards renewables. Materials also did well, thanks to Metals and Mining companies enjoying higher commodity prices. Weakest sectors included Consumer Discretionary and Financials. The fund's slightly more cyclical sector exposures had a small negative impact on relative returns.

The fund has no direct exposure to Russian equities, but given the size of the Russian economy, many companies focused on global markets have some level of financial exposure to Russia. Dutch bank ING and French automaker Renault are among the portfolio holdings with most direct Russian exposure and they were also among the largest detractors. The largest positive contributor was the German potash producer SDF, which benefited from soaring prices as Russia and Belarus are large global suppliers of potash. Although stock selection was negative in February, we see no systematic exposure within the portfolio to Russia beyond the level that is reflected by the broad European market indices.

See performance and fund data Click here >

**Strategy**
European Value invests in European equities, 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.