Fund report, March 2022
Ethical Emerging Markets Value Equities

Sparinvest

MARKETS RECOVERED LOST GROUND

Russia-Ukraine crisis dominated markets

Markets. A sell-off of equities during the first half of the month was followed by a rally in the second half of March leaving overall markets with a modest decline. Markets were dominated by news on the war in Ukraine as well as the rising COVID-19 outbreak in China. The advance dominated the first half of the month, albeit a less effective one than anticipated, of the Russian military invasion of Ukraine. The second half of the month saw the Ukrainian defenses force a stalemate and subsequent partial retreat by Russia, which led to rising hopes for a negotiated settlement between the two nations. Equity markets rallied on the potential for peace with the MSCI Emerging Markets index ending the month with a decline of 1.33%, despite at one point during the first half of March having declined by more than 9%.

China was the worst performing of the major markets (excluding Russia, which was formally ejected from the Emerging Markets index in the first half of April), with the MSCI China declining by 8% in the month. China has been battling rising COVID infections using lockdowns of complete cities in line with its "zero-COVID" plan, and markets began to fear significant economic consequences from the lockdowns.

Energy commodities suffered from extreme volatility in the month as financial sanctions impacted energy trading with Russia, driving the price of Brent crude oil as high as $125/barrel early in the month. Prices then retreated to $100 as flows resumed only to be followed by further spikes as the US directly sanctioned Russian crude. Commodity exporting countries were again the relative outperformers, with Brazil the best performing major market rising 5.97% in the month in local currency terms, with the appreciating Brazilian Real magnifying the local market index return for investors in euros.

Value continued its strong run

The Portfolio. During March, the fund rose by 0.33%, outperforming the MSCI Emerging Markets index, which fell by 1.33%. The value style was a significant contributor to the outperformance of the portfolio. However the portfolio also outperformed the MSCI Emerging Markets Value index, which declined by 0.13% in the month.

So far, in 2022, the fund has gained 1.37%, compared to losses of 4.92% for the MSCI Emerging Markets index and 1.29% for the MSCI Emerging Markets Value index.

As discussed in last month's commentary, the fund had fully divested its limited exposure to Russian equities by the end of February. Since early March, Russia has also been excluded from the MSCI Emerging Markets index.
The fund benefitted from strong individual performance including from Sendas Distribuidora, a Brazilian retailer. Mexican steel maker Ternium was also a strong performer along with South African bank ABSA. The portfolio also benefitted from not owning significant benchmark positions such as Tencent and Meituan, both of which declined significantly in the month and together comprise 5% of the benchmark.

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.