

RATE INCREASES UPSET EQUITIES

Markets stopped trying to fight the Fed

Markets. The Federal Reserve (the Fed), which sets monetary policy in the U.S., raised rates by 0.25% in March. Since that rate rise however, a consensus amongst economists formed that the Fed would increase rates by 0.50% in May and even possibly another 0.50% in June. This expectation for rising rates led to declines in global equity markets. Despite the impact of US rates on emerging economies, emerging market equities fared better than developed markets. The MSCI Emerging Markets index declined by 0.40% whereas the MSCI World index of developed market equities fell by 3.29%, led by the 4.12% decline in U.S. equity markets.

Emerging market indices benefitted from additional stimulus support announced in the last week of April by the Chinese government. The politburo of senior leaders committed to the economic growth target of 5.5% despite continued COVID lockdowns in major cities, and this commitment led to a rally in Chinese equities at the end of the month. Brazilian equities, however, ended the month sharply lower, snapping the strong start to the year in that market. The decline in Brazilian equities was caused by declining domestic economic growth and expectations on interest rates from the Brazilian central bank.

Rising U.S. rates led to a strengthening of the dollar against emerging market currencies in April. The Brazilian real, Chinese renminbi and Indian rupee all suffered significant depreciation in the month, raising the prospect of increased inflation.

Energy commodities were more stable in April after significant appreciation in prior months. However, as

energy is priced globally in dollars, many countries experienced further local market price increases due to their currency depreciations.

Value continued its strong run

The Portfolio. During April, the fund rose by 0.36%, outperforming the MSCI Emerging Markets index which fell by 0.40%. The portfolio also outperformed the MSCI Emerging Markets Value index, which declined by 0.48% in the month. Despite the weakness of the Value index relative to the broad market, the portfolio did benefit from its focus on the value style. The Value index underperformed the broad index due to its exposures to secondary styles such as to higher dividend yield stocks which underperformed.

Stock selection was an important positive contributor to portfolio outperformance in the month. Bank Negara, an Indonesian bank performed well in April as reported earnings growth was stronger than expected due to improving lending margins and improving credit conditions. Tupy, a Brazilian auto parts manufacturer shrugged off the overall Brazilian market malaise in the month with strong performance as the company announced an acquisition of a complementary business, with the acquisition well received by the market. TravelSky, a Chinese business that provides technology solutions for the domestic Chinese tourism industry, was also a strong performer. The company benefitted from the announcement from the government of economic stimulus, along with signs that the COVID lockdown in Shanghai was beginning to reduce the numbers of cases in that city.

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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