

MARKETS REBOUND LATE IN MAY

Inflation concerns weighed early in month

Markets. In early May, fears rose that high inflation would lead central banks to tighten faster than expected, causing economic weakness. Emerging market equities – as measured by MSCI Emerging Markets in euros – fell to their lowest level in almost two years. However, markets recovered after Fed Chair Jerome Powell countered speculation of aggressive rate hikes. Sentiment improved further for emerging markets as the Chinese government made efforts to soften the slowdown in economic growth, U.S. President Biden indicated he might remove some tariffs on Chinese import, and expectations rose that Shanghai may re-open from COVID lockdowns.

Over the entire month of May, emerging market equities (MSCI EM) fell by 1.09%, but this was a strong recovery, given that they had been down close to 7% mid-month.

There were wide dispersions in country returns. Latin America was generally strong, with Chilean equities up almost 17%, after an easing of political uncertainty over the new constitution draft. Brazil and Mexico also gained around 7% and 4%, respectively. Asia was weak, with China and South Korea roughly flat and negative returns from Malaysia and Indonesia. India fell over 7%. The central bank announced a surprise hike in policy rates by 40 basis points, and the government announced measures to limit price rises.

By sector, Information Technology was strong, rebounding late in the month on hopes of easing of Chinese lockdowns.

Stock selection drove strong fund returns

The Portfolio. In May, the fund rose by 1.27%, notably stronger than the 1.09% fall in MSCI Emerging Markets. MSCI Emerging Markets Value – a broad index of value equities – was also down by 0.67%.

This means that, so far in 2022, the fund has gained 3.03%, compared to a fall of 6.33% in MSCI Emerging Markets, and a fall of 2.42% in MSCI Emerging Markets Value.

In May, the fund's relative strength was explained primarily by stock selection: the strong performance of individual companies within the portfolio. Brazilian autopart maker Tupy rallied by 16%, after quarterly results showed strong profit margins, with management suggesting further upside for margins as synergies continue to emerge from a recent acquisition.

Chinese auto producer Geely Automobile gained close to 19%, after previously weak share price performance. Confidence grew on the demand outlook, and Geely also announced the acquisition of a stake in Renault Korea, highlighting its ambition to develop globally.

Other strong performers included Banco do Brasil, while weaker holdings included Indian generic drug-maker Aurobindo Pharmaceutical, which ended the month with financial results that confirmed higher input costs had hurt profitability – confirming the wider global theme of inflation.

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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