

EM GAINS HELD BACK BY CHINA

Emerging equities weak relative to developed

Markets. In July, emerging market equities – as measured by MSCI Emerging Markets in Euros – rose by 2.28%. This was significantly less than developed markets, with the MSCI World index rebounding 10.67%.

Globally, markets rose as hopes increased that central bankers – led by the U.S. Federal Reserve – would find the right balance between raising rates high enough to beat inflation, but not so high as to crush the economy. The Fed's June meeting minutes showed a willingness to be 'data driven', which markets saw as a sign of flexibility, and perhaps the end of the tightening cycle.

The significant underperformance of emerging markets compared to developed, was primarily explained by China. Chinese equities fell roughly 7% in July. Although the month began with increased belief in China's ability to withstand the current rate hike cycle, sentiment worsened as the month progressed. The Politburo did not add any new stimulus at the meeting on July 28. While markets hoped for central government response to property concerns, the response remained primarily one of local governments.

However, there were strongly performing markets. Latin American markets generally participated in the global recovering, with Chile notably up around 15%. Meanwhile India benefitted from overseas investors

turning more positive, becoming net buyers after three quarters of outflows, and rose over 12%.

From a sector perspective, IT led the way as internet names and tech more broadly rebounded, while real estate was notably weak – given concerns in China.

Fund lagged in July, led year-to-date

The Portfolio. In July, the fund rose 0.93%, compared to MSCI Emerging Markets' rise of 2.28%, and MSCI EM Value's increase of 1.60%. Year-to-date, the fund fell 0.07%, compared to MSCI EM's decline of 8.36% and MSCI EM Value's decline of 4.83%.

Compared to MSCI EM, the main reason for the fund lagging somewhat in July appears to have been its relatively large exposure to China compared to the index. The fund's selection of individual names also appeared, this month, to have a relative negative effect.

Looking at the performance of individual names in July, suggests that geography was a major determinant of returns this month. Weaker performers were dominated by Chinese companies, including real estate firm CIFI Holdings, home building materials maker China Lesso Group, and Ping An Insurance. Stronger performers including Indian holdings such as Axis Bank and Engineers India, and Latin American companies such as food producer Gruma and retailer Sendas.

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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