Fund report, December 2021
Ethical Emerging Markets Value
Equities

Sparinvest

RECESSIONARY CONCERNS

China strength continued amid weak markets

Markets. In December 2022, emerging market equities – as measured by MSCI Emerging Markets in euros – fell by 4.88%. This was somewhat less than the 7.62% fall in developed markets (MSCI World).

Inflation pressures appeared to ease in the month with the U.S. posting a further reduction in inflation, helped by falling energy prices, but the both the U.S. Federal Reserve and European Central Bank retained a more hawkish tone, suggesting market expectations on the peak for interest rates may be too optimistic. This drove market declines globally.

However, emerging markets fared marginally better than developed markets. As in November, this was primarily explained by a relatively strong Chinese market, driven by earlier-than-expected reopening due to lifting of COVID measures. In November, China had rallied over 24% in Euro terms. In December, the gains were a more modest 1.3%, but China stood out as the only major market to see positive returns. Another supportive factor was a policy shift signaling a more supportive approach to privately owned enterprises and internet platforms – an area of the economy that that been under regulatory pressure for much of the year.

However, the rally of the last two months did not change the overall picture of 2022 for Chinese equities or emerging market equities more broadly. Over the full year, MSCI EM declined 14.85%, the worst year since 2011, driven mainly by declines in large Asian markets such as China, Taiwan and Korea. One notable positive exception was MSCI Turkey, which rose over 90% in the year and erased losses from the previous two years.

Fund ended 2022 with far narrower losses than market

The Portfolio. In December, the fund fell by 3.86%, while MSCI Emerging Markets fell by 4.88%.

The fact that the fund fell less than the wider market was explained partly by the fund's slightly higher exposure to China, but also by its exposure to the value factor, which generally contributed positively in December. At the index level, MSCI Emerging Markets Value, a broad gauge of value equities, fell by 4.99%, benefitting less from the value factor than the fund did.

In terms of individual holdings, the fund's strongest contributors in December were generally in China, such as sanitary product maker Hengan International, China Yongda Automobiles, and Ping An Insurance.

This means that over the full year 2022, the fund fell by 3.46%, while MSCI Emerging Markets declined 14.85%, and MSCI Emerging Markets Value declined 10.31%. While we are always disappointed by negative absolute returns, we take some encouragement from the fund outperforming both these indexes by wide margins. The outperformance over the year was explained by two main drivers. The fund benefitted from its exposure to value stocks, which were relatively strong in 2022 against the inflationary background. However, our selection of individual stocks also helped significantly. Key contributors included retailer Sendas Distribuidora and autoparts maker Tupy, both in Brazil. Tupy had shown strong results, benefitting in part from synergies after acquisitions, and we ultimately divested our position in October.

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.