

## Ethical Emerging Markets Value

EQUITY

# Emerging markets remain strong

## Earnings momentum encouraging

**Markets** August was another solid month for emerging market equities: the MSCI EM index gained 2.9% while developed markets rose 0.49%.

Rate expectations in the US increased through the month, but this did not appear to hurt global risk appetite, with markets perhaps reassured by underlying macro data in the US which was relatively positive. Meanwhile oil (WTI) gained 8.7% in August, while gold prices eased.

Earnings momentum was encouraging, with emerging markets overall seeing upward revisions. Korea, Russia and Thailand saw notable positive momentum, while Brazil, Turkey and South Africa saw earnings downgrades.

Chinese stocks were strong. The State Council approved another step in the opening up of capital markets: the Shenzhen-Hong Kong Stock Connect, which will allow cross border trading and increase foreigners' access to the domestic A-share market. China also saw strong consumption data: for example, car sales rose 26% year-on-year.

Politics continued to play their part. India's reform continued with the approval of a key GST (VAT) bill. In Turkey, President Erdogan an all-time high approval rating after the recent coup attempt. In Brazil, there is hope that the senate's approval of the impeachment of Dilma Rousseff can draw a line under a long saga, with Michel Temer officially became president.

In South Africa, the ruling ANC lost control of Johannesburg and Pretoria, and the equity market there was among the weakest this month.

## Strong selection in India & China

**The Portfolio** In August, the fund gained 2.36%, while the benchmark MSCI EM index gained 2.90%. YTD, the fund has increased 15.59%, close to 4 percentage points ahead of the benchmark's 11.72%.

Within major emerging markets August saw the strongest returns from China and South Korea, while South Africa was relatively weak. At the sector level, IT and financials gained most, while defensive sectors like telcos, consumer staples and healthcare were weakest. Value stocks underperformed growth stocks in emerging markets.

The fund's slight lag to benchmark in August was explained mainly by allocation: compared to the benchmark, we have somewhat lower exposure to China, and also to IT stocks – both strong performers in August. That said, our stock selection within countries was beneficial, with better-than-benchmark returns most notable in India and China.

In India, our holdings Yes Bank, Axis Bank, and Engineers India were the drivers, while in China tire cord maker Xingda and real estate player Soho China were strong. Major individual stock contributors also included Korean auto company Halla Holdings. Major detractors were Peruvian gold miner Buenaventura and South African retailer Mr Price, both of which saw some profit taking in the market after strong performance earlier in the year.

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### Strategy

Ethical Emerging Markets Value invests in equities issued by companies domiciled in Emerging Markets. 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 regions.

For further information we refer to the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest or of appointed distributors together with the initial statutes of the funds and any subsequent changes to such statutes. Investments are only made on the basis of these documents. Past performance is no guarantee for future returns. Investors may not get back the full amount invested. Investments may be subject to foreign exchange risks. The indicated performance is calculated Net Asset Value to Net Asset Value in the fund's base currency, without consideration of subscription fees.