

Ethical Emerging Markets Value

EQUITY

Strong EM returns continue

Driven by improving growth

Markets August saw emerging market equities continue to deliver decent returns. MSCI EM gained 1.38 percent in Euro terms, while MSCI World (developed markets) fell 0.69 percent.

So far in 2017, MSCI EM is up 13.82 percent, over 13 percentage points ahead of MSCI World. At the broadest level, we see this strength in emerging market returns as being driven by improved expectations for GDP and earnings growth in emerging markets, relative to developed markets. This theme could be seen in August: in China, for example, the first half reporting season saw a significant majority of companies either meeting or beating forecasts.

Peru and Brazil were among the strongest markets this month. Both benefitted from higher commodity prices, while Brazil also saw improving economic data and the lower legislative house voting not to put President Temer on trial for corruption.

The VIX volatility index in August did suggest some nerves surrounding North Korean missile launches, and notably South Korea equities were among the weakest of the major emerging markets, driven partly by weakening of the South Korean won. In general, the markets seemed willing to shrug off the developments. We share the view that the risk of escalation to broad armed conflict should be relatively low, since the parties involved generally behave out of more-or-less rational self-interest. However, developments in the region can weigh on sentiment.

US President Donald Trump in August decided to revive his rhetoric over NAFTA, suggesting that while work had begun to renegotiate the deal, he thought the U.S. would “end up probably terminating NAFTA at some point”. While such com-

ments may need to be taken with a pinch of salt, they certainly did not help sentiment on Mexican equities, which were among the weakest in August. Indian stocks were also relatively weak in August, falling back slightly after a strong rally in July.

Fund well ahead of value universe

The Portfolio In August, Sparinvest Ethical Emerging Markets Value gained 1.37 percent, basically in line with MSCI EM.

Year-to-date, the fund is up 14.56 percent, slightly ahead of MSCI EM's 13.82 percent. Note that 2017 has not so far been a strong year for value equities overall. The MSCI EM Value index is up only around 9 percent so far this year, meaning our value fund has significantly outperformed the wider value market. This has been driven mainly by selection of individual stocks.

In August, the fund's allocations to different countries had little impact on its returns relative to the benchmark MSCI EM. From a sector perspective, there was a mildly negative impact from the fund having slight overweighted in Industrials and Consumer Discretionary: these were two of the weakest sectors in August.

Brazilian names were among the fund's strongest contributors this month. The Brazilian market generally performed strongly, and standouts for the fund ranged from the large Banco do Brasil to the small Tupy, a maker of engine blocks. Meanwhile, the largest detractors included Taiwanese contact lens maker Ginko International, and the fact that we do not invest in certain megacap names, which performed well for the benchmark, including semiconductor maker TSMC and internet player Tencent.

See performance and fund data

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Return is calculated gross of fees and excluding swing.

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.

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.