

Ethical Emerging Markets Value

EQUITY

Good month for many markets

Brazil and India up – Russia down

Markets Emerging market equities had a decent January, with MSCI Emerging Markets gaining 2.94% in Euros, while MSCI World (developed markets) was basically flat. The USD weakened in January, after Trump called it “too strong”, and EM currencies generally gained ground. While oil fell, other commodities like copper were more robust, and the materials sector led the market. However, there was a broad spread of returns within emerging markets, with varied underlying drivers.

Brazilian equities were particularly strong, rising over 8%. Most notably, the central bank cut interest rates by a hefty 75 basis points, on the back of falling inflation. Chile also cut rates, by 25 basis points. We have previously noted that falling inflation in some emerging markets relative to developed markets could be positive for emerging currencies. Meanwhile, commodities remain reasonably firm, which again is supportive of many emerging markets.

India was reasonably solid. In November, we wrote of the aggressive demonetization steps – suddenly invalidating over 80% of cash currency to curb money laundering and terrorist funding. This was expected to have rather painful economic side-effects, but recent data, such as auto-sales and industrial production, were relatively encouraging.

Meanwhile Russia was the weakest major EM market, falling back around 3%. This was after a very strong December, where both Russian equities and the ruble performed well on the back of rising oil and the Trump victory.

In line with benchmark

The Portfolio The fund is essentially in line with benchmark so far this year: as of 1 February, the fund had gained 1.94% compared to the benchmark's 3.83%.

Our allocations to specific countries did not much impact our returns relative to the MSCI EM index. For both fund and index, some of the strongest gains came in Brazil, Peru and South Korea. In South Korea we performed notably better than the wider market, thanks primarily to our investment in memory chip maker SK Hynix.

Our allocations to sectors had a negative impact in January, mainly due to our relatively low exposure to Information Technology. However, this was offset by the fact that, in other sectors like Financials, Industrials, and Consumer Staples, our stock choices performed more strongly than peers.

The fund's exposure to small companies was a slight negative factor, as small and mid-cap stocks performed less well than large cap peers in January.

Among our best contributors in January were SK Hynix, Banco do Brasil, and Peruvian copper and gold miner Buenaventura. Detractors included Latin American steel company Ternium and Taiwanese contact lens maker Ginko International.

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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.

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.