

Ethical Global Value

EQUITY

Positive but volatile start to year

Macro data good but yields spook market

Markets Equity markets had a flying start to the year. In January, MSCI World (developed markets) rose around 1.5 percent in euros, while MSCI Emerging Markets gained about 4.5 percent. Note that the euro rallied more than three percent against the USD – so equity returns were even higher when measured in USD. It was, however, a volatile month.

In bond markets, the U.S. 10-year yield rose throughout January, reaching the highest level since early 2014. Long interest rates also rose in Europe in January. The rate increases reflect improved global expectations for growth and inflation, and when rates rise for those reasons, it is normally associated with positive returns in equity markets. That was true for most of January, but at the end of the month, the continued interest rate rises actually triggered falls in the equity market.

Perhaps more important than the degree by which U.S. rates increased, was the symbolism. Rates have described a long-term downward trend since 1987, but the recent move broke up through the line of that trend. Equity markets seem to have been spooked, perhaps fearing faster than anticipated normalization of monetary policy. These worries also had an impact on other, risky asset classes like EM bonds and HY corporate bonds at the end of January.

Note that, despite the falls late on, at month-end it remained one of the strongest Januaries for equities in recent years.

Rate sensitivity impacted sectors

The Portfolio In January 2018, the fund gained 0.41 percent, behind the MSCI World's 1.48 percent. There were relatively weak returns for both value and small cap stocks overall, and the factors both worked against our fund – a value fund with some small- and mid-cap exposure.

For most of the month, rising yields meant certain sectors seen as benefitting from low interest rates were punished. Therefore, Utilities and Real Estate performed poorly, while there were relatively healthy returns for Financials – for which rising yields can be a tailwind. That pattern changed late in the month, when equity markets fell and investors flocked into sectors perceived to be relatively defensive, such as Utilities and Real Estate. Nonetheless, at month end both those sectors remained in negative territory and our fund benefited from its limited exposure to both. Meanwhile, although financials were somewhat weaker in the nervous markets at month end, the fund benefitted from its exposure here, with banks like Regions Financial performing well.

IT names continue to have an impact. We find it relatively hard to invest in benchmark heavyweights such as Amazon and Apple, due to their valuations. In January, the fund suffered from its lack of exposure to Amazon, which gained almost 20 percent - but simultaneously we benefitted from not owning Apple, which fell sharply.

The fund enjoyed strong returns from Gilead Sciences, a biopharmaceutical company. It has two major franchises, in HIV and Hepatitis C. A major challenge in recent years has been that it has a wildly successful Hepatitis C drug, which does not simply treat the virus - it actually cures it. This is excellent for healthcare, but inherently meant Gilead's huge revenues from the drug would decline. Recently, there have been signs that the Hepatitis C franchise is stabilizing, and that its HIV drug pipeline offers great promise.

See performance and fund data

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Return is calculated gross of fees and excluding swing.

Strategy

Ethical Global Value invests in global equities from developed 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 regions. Ethix SRI Advisors performs an unbiased screening to ensure that only ethically sound companies are included in the portfolio.

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.