

Ethical Emerging Markets Value

EQUITY

2017 still a strong year for EM

Earnings growth has improved

Markets In July, the emerging market equity universe (as measured by MSCI EM in Euros) gained 2.5 percent, while developed markets (MSCI World) fell 0.9 percent. From January to end-July, MSCI EM rose 12.3 percent, while developed markets rose just 1.37 percent. So, 2017 continues to be a strong year for emerging markets. As noted last month, tailwinds include improving earnings growth, and currency appreciation – which we think have the potential to be long-term drivers of decent returns from emerging markets.

In July, Brazil was the strongest market, gaining over 7 percent. This was partly thanks to the Brazilian Real strengthening 6 percent against the USD and 2 percent against the Euro. Brazil's central bank cut the policy rate by 1 percentage point, and hinted it could cut rates further. Labour reforms were also approved.

India and China also had strong months. China's macro data for June was encouraging, with 2Q GDP slightly ahead of expectations: up 6.9 percent in real terms and 11.1 percent in nominal terms. China is showing discipline in cutting capacity in old economy areas such as coal and steel, with the aim of boost profitability and cash flows – and in turn, reducing concern over loan quality and banks.

India made smooth progress in implementing one of its most ambitious reforms. From 1 July, a new national Goods and Services Tax (GST) replaced a complex web of national, state, inter-state and local taxes. In the long-run, this should help movement of goods and services, and potentially help tax revenue.

Individual stock selection drives result

The Portfolio As of 1 August, the one month return for Ethical Emerging Markets Value (EUR I) was 2.75 percent, slightly more than MSCI EM's gain. This means that year to date, the fund is up 11.99 percent, 0.39 percent behind MSCI EM.

Note that 2017 so far has not been a strong year for value equities overall. The MSCI EM Value index is up only around 7 percent year to date, meaning that our value fund has significantly outperformed the wider value market.

In July, as has been the case for most of this year, it was our selection of individual stocks, that was the main positive driver.

The fund's allocation to different countries had limited impact on performance. The fund theoretically had a negative impact from its allocation to different sectors. For example, it has a relatively higher exposure to health care, industrials, and consumer staples – three sectors, which generally had a weak month in the markets. However, the fund more than offset this thanks to the strong performance of its individual stock selections. For example, in health care, contact lens maker Ginko International rallied strongly on expectations of improved earnings. In consumer staples, Brazilian retailer CBD-Pao de Acucar continued to perform strongly, looking to improve profitability through remodeling of stores and tighter financial discipline on capital expenditure and working capital. In industrials, shipping company Orient Overseas announced a friendly takeover by COSCO Shipping and Shanghai Port Group, and the stock rose 26 percent in Euro terms. We have long believed in the potential for further consolidation in the shipping industry, and it is encouraging to see this development.

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.