

Ethical Emerging Markets Value

EQUITY

The trade war flared up again

Any idea where we're heading?

Markets Emerging Markets shares (MSCI EM in Danish kroner) rose 1.08 percent in July, which is the sixth month in a row where the raise was less than the 2.48 percent seen in the developed markets (MSCI World). This means that Emerging Markets are already 8.5 percent behind MSCI World this year.

Emerging Markets came under pressure last month from the increased escalation of the trade war between the USA and China, with the market taken by surprise by Trump's threat of a 10 percent customs duty to be levied from September. This, combined with the first lowering of interest rates by the American central bank and the expectation of more to come this year and a rising dollar, put a damper on yields. The International Monetary Fund (IMF) also made a 0.10 percent downward adjustment for global growth, both current and for next year. There are rising expectations in the market of interest rate reductions from several of the central banks, also in Emerging Markets but excluding China, in order to further support growth.

Turkey was the best performing market at +14.1 percent (MSCI Turkey), driven by a 6.5 percent strengthening of the Turkish lira. Brazil also rose by 4.6 percent, their rise driven by the first approval of a draft for new social reform. South Korea fell by 3.9 percent (MSCI Korea); making it July's poorest performing market. The fall was mainly due to challenges from increased trading restrictions from Japan.

Return is calculated gross of fees and excluding swing.

Continued headwind for Value

The Portfolio fell by 1.48 percent in July while the MSCI EM comparison index rose by 1.08 percent. This was primarily due to exposure to the value segment, which can also be seen in the MSCI Value fall of 0.43 percent in July. Therefore, July was yet another month with headwind for the Value segment.

Once again, the portfolio was hit by its lack of major internet companies (Tencent and Alibaba). In addition, an offer for Harbin Electric was cancelled due to a lack of acceptance, which led to a fall in share prices of over 30 percent on one of our smaller positions. On a positive note, our IT and energy companies performed well both overall and in relation to the comparison index.

In a period like this where worries about which way the market is heading are on the increase, it is more a question of psychology rather than the fundamental conditions of the underlying assets that sets the agenda. This can be seen in July's large-scale sale of Emerging Market shares, which is typical in a risk-off scenario.

See performance and fund data

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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.