

## Ethical Emerging Markets Value

EQUITY

# Tailwinds for emerging market

## Earnings growth improved

**Markets** In June, the broad emerging market equity universe (as measured by MSCI EM in Euros) saw a slight fall of 0.4%. Meanwhile developed market equities (MSCI World) fell 1.0%. So the trend of relatively decent returns for emerging markets continues. In the first six months of the year, MSCI EM is up 9.5%, while MSCI World is up 2.3%.

Tailwinds for emerging market equities so far this year have included improving earnings growth, and currency appreciation. After a tough 2016 on the back of Trump's anti-trade rhetoric, the Mexican peso has rebounded around 6.0% against the Euro and 14% against the USD so far this year. Poland, Taiwan, Czech Republic, Korea and India have also enjoyed some of the strong currencies this year. President Trump has arguably been a neutral factor: he has not yet delivered protectionism, or domestic economic stimulus.

One significant event in June was MSCI's decision that from June 2018, the MSCI EM index will include China A-shares: those listed on mainland exchanges as opposed to Hong Kong. This will start small, at under 1.0% of the index – but will likely grow significantly in the long-term. The A-share market becomes increasingly accessible – as bottom-up investors we appreciate the chance to stock-pick from a broader universe – but as always we will take a conservative approach to both stock valuations, and the quality of company's financial disclosures.

## Stock selection encouraging

**The Portfolio** In June, the fund rose 0.2% while the benchmark fell 0.4%, giving the fund a relative gain of 0.6%. This means that over the past six months, the fund's net return is

8.5%, while the benchmark is up 9.5%. Over the past 12 months, the fund has gained 22.5% compared to the benchmark's 20.5%. It is worth remembering that both in June, and in 2017 so far, both value stocks overall (MSCI EM Value) and small cap stocks have been relatively weak.

In June, the fund's exposures to different countries did not have a particularly significant impact on its returns relative to the benchmark. In terms of industries, the Information Technology sector is worth a mention. The fund has relatively low exposure to software and internet related names, which continued to perform well in June, so this had a slight negative impact on the fund's relative performance. However, our tech hardware names performed strongly, largely offsetting that impact.

Stock selection was broadly encouraging in June. In India, we recently invested in generic drug maker company Aurobindo Pharmaceutical. Its share price had been under pressure in recent months due to concerns over a strong Indian currency hurting the value of its exports, pressure on drug prices in the US, and worries that the Trump administration might eventually start working on border taxes. We recognize these issues, but believe they have pushed the share price to a level that fails to reflect the company's significant long-term value. Encouragingly, Aurobindo performed strongly in June, and our Indian exposure outperformed the wider Indian market.

Other strong performers included South African retailer Mr. Price, and Hong Leong Bank in Malaysia. On the negative side, Brazilian retailer Pao de Acucar (also known as CBD) saw profit taking in the market, having been one of the fund's strongest performing stocks earlier in the year.

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.