

Ethical Emerging Markets Value

EQUITY

One step forward and...

Markets were a mixed bag

Markets Markets were varied, with gains in Asia, falls in Eastern Europe, and a mixed bag in Latin America with sharp declines in Brazil.

In Brazil, 'Operation Carwash' – the investigation into the corruption scandal at the national oil company Petrobras – continues to impact upon politics. Now two newly appointed ministers have had to step down due to personal links to the case. Meanwhile, the Senate voted to continue the impeachment process of President Dilma Rousseff, with VP Michel Temer taking over. There is of course potential for reform, but the political noise has dominated markets this month.

Turkey was another market where politics mattered. Turkey's equity markets had made solid gains early in the year, but saw sharp profit taking in May when infighting between the President and the PM led to the PM's resignation.

China saw its currency - the Renminbi – return to the lowest levels in almost five years, on the back of expectations of US rate hikes.

Mexico surprised the market by renewing and expanding its contingency credit line with the IMF. This move was seen as motivated by increasing market uncertainties ahead of the UK's Brexit referendum in June, and the US elections in November, which bring the possibility of a President named Donald Trump.

South Africa is shortly to learn the outcome of a review by credit rating agency S&P, which could pressure the South African Rand in the near term.

Decline in May, but still outperforming

Performance The preceding months had seen some tailwind for value segments of emerging markets, but this changed sharply in May. Value, as measured by MSCI Emerging Markets Value, fell by over 3%, while the core MSCI Emerging Markets benchmark fell by 0.95%. Our fund fell 1.05% in May. Year-to-date, the fund has gained 3.35% while the benchmark dropped 0.15%.

In May, the fund felt some impact from the general relative weakness of value stocks. We benefitted from our low exposure to energy stocks, which were weak, but this was largely offset by our low exposure to IT stocks, the best performing market sector this month. Our low exposure to Brazil gave us some protection, but our specific holdings there – in banks and consumer areas – were among the ones harder hit. In Turkey, we fared reasonably well despite the market pain, thanks to our specific exposure to an exporter of domestic appliances which was left relatively unscathed.

The Indian market was particularly strong for the fund, and at the sector level we saw solid contributions from our Asian automotive stocks.

We are positive about the current valuations in the portfolio, and see good potential – while noting that markets could see more uncertainty in the near term.

Strategy

The fund invests in value stocks. Through careful fundamental analysis, the team strives to identify companies that trade at healthy discounts relative to intrinsic value. A risk-aware approach to portfolio construction ensures a well diversified portfolio. The Fund pursues an active value investment strategy, which is the reason why performance may deviate from benchmark.