

Ethical Global Value

EQUITY

Difficult environment for value

Key figures are still surprising

Markets During the month of May, macroeconomic releases still surprised analyst expectations positively – although not to the same degree as in prior months. The steepness of both the US and German yield curves continued to flatten – especially due to lower long-term inflation expectations, which caused long interest rates to decline slightly.

European unemployment surprised by declining more than expected and reached 9.3%. The important German IFO survey also came out better than expected and is now at the highest level since 2014. The leading indicators from OECD are still showing an increasing trend – however not as much as in prior months.

The EUR continued its rally in May, which was caused by a combination of strong macroeconomic releases from the Eurozone and the less political uncertainty after a number of elections, where Euro-skeptics were sidelined.

The equity market enjoyed a strong rally in May, but since the EUR strengthened by 3.3% to the USD, the MSCI World actually declined by 1% in EUR-terms. The market is now a little complacent with low volatility and the VIX trading below 10, which is the lowest level since 2006.

A few shares performed well

The Portfolio The fund lost 2.6%, while the MSCI World index lost 1.1%. The fund's relative loss compared to the benchmark is dissatisfactory, but we note that value stocks in general, when measured by the MSCI World Value index, trail the overall market. Although, the global deflation narrative is still strong, the deflation trades from last year continued to suffer as Trump continues to cause uncertainty. The falling bond yields and the flattening yield curves create a hostile environment for value investors.

Market participants saw political risks recede in Europe as Emmanuel Macron comfortably beat Marine Le Pen to become France's next president. This resulted in European markets posting strong relative returns compared to other regions, well supported by the strengthening of the Euro. The best performing sectors of the month were Utilities, IT, Consumer Staples, Telecom and Health Care – of which many are considered classic defensive sectors, where overall pricing has led us to have less exposure than the index. Consequently, industry and the aforementioned style exposures continued to weigh on the fund's performance in May.

On a positive note, a handful of the portfolio holdings saw strong performance, which helped mitigate the headwinds. Individual stocks like Ericsson, Vodafone and Estee Lauder – all from different industries – outperformed its industry peers on the back of results announcements or other good news. Another solid performer was our UK pharmaceutical company, AstraZeneca. The stock was up more than 8% on a single day as one of its candidate drugs had encouraging results in a phase 3 trial.

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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.