

## Ethical Emerging Markets Value

EQUITY

# Value exposure a positive factor

## EM impacted by US election

**Markets** The market had been nervously awaiting the US presidential election on November 8<sup>th</sup>. The prior consensus was that equity markets would welcome a Clinton victory, but in reality when Trump was elected, developed market equities rallied strongly. This was mainly due to Trump's proposed easing of fiscal policy through large infrastructure programmes and tax relief. Short-term interest rates were relatively stable, while long interest rates increased strongly. The US dollar strengthened.

Emerging market equities had performed strongly so far in the year, but fell back slightly on Trump's election. This was driven by concern that some emerging market economies may be negatively impacted by the stronger US dollar, and if Trump follows through on suggestions of a somewhat protectionist, anti-trade stance. It is still early days, and in some areas Trump has already shown a softer tone than during the campaign itself. Although he has indicated that he will pull the US out of the major Trans Pacific Partnership trade agreement, we note that in some ways this can be beneficial for China – which can step into the vacuum with its own regional trade deal. In any case, in managing the fund we aim to monitor the top-down risks to different countries and sectors, and balance that with our bottom-up selection of individual stocks.

November 8<sup>th</sup> also brought an interesting development in India. PM Modi unexpectedly announced that, from midnight, all 500 and 1000 rupee banknotes would be invalid. New 500 and 2000 rupee notes would be printed to replace them. This invalidated over 80% of the cash currency overnight, a dramatic move aimed to curb money laundering, terrorist funding, and black money.

There appears to be a fair degree of popular support for the measure, but it has led to severe cash shortages at banks and ATMs. India is a highly cash based economy, and there are concerns that it may take some months for sufficient replacement notes to be printed and circulated – which could well impact negatively on the economy in the short term.

## Still ahead of benchmark

**The Portfolio** In November, the fund fell 1.23% while the MSCI EM index fell by 1.52%. Year to date, the fund has gained 17.97% compared to the index's 13.61%.

The fund performed somewhat better than the overall market in November, and this was primarily due to its value exposure. After Trump's election win, US bond yields rose. We have often argued that rising yields particularly in the US can be supportive for value equity performance in both developed and emerging markets. This materialized in November, with value equities outperforming growth equities.

Russia, Peru and China were the best performing countries over the month – Russia thanks to hopes of rapprochement under a Trump presidency. The fund has marginally less exposure to Russia than the index, but benefitted from a slight overweight in Peru.

Our strongest performers included phone component maker BYD Electronic, of China, and Russian bank Sberbank.

[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.