

## Ethical Emerging Markets Value

EQUITY

# EM pauses for breath

## Leadership shift in South Africa?

**Markets** Global equity markets were more or less flat in November. They fell slightly when measured in euros, but this was because the euro gained ground against most major currencies – including a rise of over two percent against the U.S. dollar. This was due to a continuation of strong Eurozone macroeconomic figures, including retail sales, PMI and GDP.

Specifically, November saw emerging market equities – as measured by MSCI EM – fall 2.10 percent in euros. This was slightly weaker than developed market equities (MSCI World), which fell 0.18 percent. However, emerging market equities have gained 17.23 percent so far this year, compared to 6.83% for developed markets.

South African equities were notably strong, gaining almost seven percent. The Rand was one of the few currencies to gain ground against the euro. Recent nominations suggest there is an increasing chance that Cyril Ramaphosa will become the next leader of the ANC in the contest starting in mid-December. Russia also performed well, driven by rising oil prices on the back of OPEC's extended production cuts.

Meanwhile, Taiwan was among the weaker countries, driven mainly by a sell-off in tech. We have previously noted the sharp rally in IT stocks this year. Taiwan Semiconductor Manufacturing Corp (TSMC) is a benchmark heavyweight, which had enjoyed strong share price gains during the year so far, but profit taking in the last few days of November pushed it down around seven percent in euro terms.

Return is calculated gross of fees and excluding swing.

## IT sector more mixed in November

**The Portfolio** In November, the fund fell 2.20 percent, marginally behind the MSCI EM return of 2.10 percent. This means that so far in 2017, the fund has gained 14.73 percent compared to the MSCI EM's 17.23 percent. We note that MSCI EM Value has gained only around 9.4 percent, implying that the fund is well ahead of the broader emerging market value universe in 2017. We remain focused on picking stocks to drive long-term returns.

In November, performance highlights included Sberbank, which returned around 11 percent amid the upturn in its home market, Russia. In South Africa, we saw decent gains for the bank Barclays Africa, but also retailers Mr. Price and Shoprite. We also made a minor new investment in packaging company, Nampak.

Last month we commented on the fact that the MSCI EM index is dominated by certain mega-cap tech stocks, which have generally performed extremely strongly in 2017. While we do find some of their underlying revenue growth very attractive, current valuations make them somewhat difficult to invest in from a value perspective, and our low exposure to such names has been a challenge in 2017. In November, the picture was more mixed. Tencent Holdings is a Chinese internet player, which accounts for 5.5 percent of the MSCI EM index directly - and even more once you factor in Naspers, of South Africa, which is another 2.2 percent of MSCI EM, and owns a one-third stake in Tencent. Tencent rallied over 11 percent in November, which was a significant headwind for our fund's relative returns. However, there was profit taking in TSMC (mentioned above), but also Alibaba and Samsung Electronics. It is interesting to see some signs of vulnerability in the sector, after what had been a fairly relentless rally in recent months. See performance and fund data [Click here](#)

## 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.