

## Ethical Global Value

EQUITY

# Outperformance increased

## Euro dropped in spite of good news

**Markets** During the month of October, macroeconomic releases were generally better than expected for the Eurozone. Especially Germany surprised positively with better than expected PMI-numbers, ZEW-survey, industrial production, IFO-survey and retail sales. The rest of the Eurozone figures were not quite as impressive, but overall figures for the Eurozone were strong enough to push the Bloomberg composite of European government bonds about 0.25 percentage points higher in October.

In the US, key figures were somewhat weaker and generally disappointing. That was especially the case for the change in Nonfarm Payrolls, which came out at only 156,000 vs. 172,000 expected. The US unemployment rate increased to 5.0%, which is the highest since April, but this was primarily caused by an increase in the number of job seekers. Initial Jobless Claims remained at the lowest level since the 60s.

Despite the overall key data, EUR dropped about 2.5% compared to the dollar. The reason is probably more speculation that the FOMC is going to hike interest rates in the near future (even this year). The British pound dropped to a new low-point and the Ruble continued moving higher, supported by higher energy prices. The WTI price of oil is now at 48 USD per barrel, which is about 80% higher than at the beginning of the year.

Long inflation expectations in the Eurozone crept higher to about 1.47%. In the US, long inflation expectations have increased to about 2.17%.

## Rising bond yield helped financials

**The Portfolio** The fund gained 1.66% outperforming MSCI World index's gain of 0.53%. As of end-October, the fund has gained 3.04% YTD, while the index is up 2.57%.

Rising bond yields have started both a sector and a style rotation within equities. The sector rotation continued during October, with financials being the best performing sector and real estate and health care being the worst. The fund benefited from its sector allocation given its relatively cyclical exposures.

In terms of style exposures, the MSCI World Value index outperformed the market which indicates that value stocks in general did well. This was something of a tailwind for the fund. However, our exposure to underperforming small cap stocks reduced the overall benefits from our style factor exposures.

Selection returns were broad based. US specialty retailer GAP was up 15% on a single day, when September sales were better than anticipated. Q3 results in Regions Financial were not fantastic but did ongoing cost cutting and a more benign interest rate environment going forward seemed to have helped lift the share price during the month.

Another big contributor was our Finnish forest industry conglomerate UPM, who presented very strong results in the quarter and was up 13%. In spite of a challenging environment with structural declines in certain business areas, the company showed how cost cutting and good results in other segments can still result in strong free cash flow generation.

See performance and fund data [Click here >](#)

## 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.