

Ethical Emerging Markets Value

EQUITY

Healthy returns from EM

Supportive conditions for equities

Markets Global equity markets remained strong in October, supported by strong global macro-economic growth, and liquidity conditions remaining relatively easy. In Europe, for example, ECB President Draghi recently indicated a likely reduction of the QE program in 2018, but monetary policy looks likely to remain in its current accommodative mode, considering that core inflation in the third quarter was still fairly low at 0.9 percent.

In October, emerging market equities – as measured by MSCI EM – gained 5.04 percent in euro terms. Developed markets (MSCI World) rose 3.40 percent. So far 2017 has been extremely strong for emerging equities, which have gained 19.75 percent year-to-date compared to 7.02 percent for developed market equities.

By country, Korea was the strongest market in October. A key reason was signs of improved relations with China, particularly surrounding THAAD issues (Terminal High Altitude Area Defense). A couple of months after the heir to the Samsung group was imprisoned for corruption, October saw Samsung Electronics' CEO resign, and the company also announced increased shareholder dividends in coming years.

Mexican stocks were relatively weak, with the currency also weakening. There appeared to be increased nerves surrounding NAFTA renegotiation.

Significant impact from tech stocks

The Portfolio In October, the fund gained 2.56 percent, somewhat behind the MSCI EM return of 5.04 percent. Year-to-

date, the fund has returned 17.30 percent versus MSCI EM's 19.75 percent. Note that MSCI EM Value – a broad measure of the value universe within emerging markets – returned just 12.13 percent.

The core reason for the fund lagging MSCI EM in October related to the Information Technology sector, which is increasingly dominant in market-cap weighted indexes. The IT sector is over 29 percent of MSCI EM. Much of this was in a few mega-cap stocks, like Samsung Electronics, Taiwan Semiconductor Manufacturing Co, and internet players Tencent and Alibaba. The internet names in particular tend to trade at high valuations, and are arguably more 'growth' than 'value'. Note that the MSCI EM Growth index is over 40 percent IT, compared to more like 12 percent in MSCI EM Value.

Such stocks have been performing extremely strongly: within MSCI EM, the IT sector gained 8.42 percent in October, and is up over 45 percent year-to-date. The mega-caps have led the charge. This was a clear headwind for value investors who find it more difficult to take full exposures to the more expensive tech names. Over the longer term, our fund has offset that headwind thanks to extremely strong returns in the IT stocks in which we do invest, including semiconductor maker SK Hynix (Korea) and phone components maker BYD Electronic (China). BYD Electronic shares almost tripled this year, and in October fell back somewhat. This coincided with continued strong returns from mega-cap tech names, which limited our returns relative to benchmark. Specifically, the fund's lack of the four mega-caps listed above cost it around 1.6 percentage points of performance relative to MSCI EM in October. We remain convinced that our stock picking value approach will drive healthy long-term returns.

See performance and fund data

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Return is calculated gross of fees and excluding swing.

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.