

Ethical Emerging Markets Value

EQUITY

Strong gain from individual stocks

Several factors increased uncertainty

Markets September again saw emerging market equities outperform their developed peers. MSCI Emerging Markets gained 0.38% while MSCI World fell 0.37%. At the broadest level, this may be linked to expectations that economic growth in emerging markets will improve relative to developed markets. In early October, the IMF lowered its GDP expectations for the US and other developed economies, while continuing to expect a rebound in emerging markets.

September saw higher stock market volatility than the relatively quiet summer month of August. This was mainly caused by speculation about a potential interest rate hike from the Fed at their September meeting. No hike came, but the market now prices one in at either the November or December meeting with about a 60% likelihood. Another source of uncertainty was Deutsche Bank.

Chinese macro indicators were somewhat encouraging, with housing and passenger car sales solid, and some reduction of overcapacity in coal and steel production. Politics remain important. The Philippines saw its currency fall, not helped by questionable remarks from President Duterte about human rights and foreign relations. Indonesia's currency gained thanks to a tax amnesty scheme.

Notably, Mexican equities fell over 4% in September, driven largely by weakening currency. There are certain macro issues – such as credit growth decelerating later this year – but also political concerns. Mexico is clearly highly exposed to US trade and investment. A Trump victory seems most worrisome, but even Clinton has a somewhat protectionist stance regarding trade agreements.

Outperformance year to date

The Portfolio In September, the fund gained 0.28%, close to the MSCI Emerging Market index's gain of 0.38%. As of end-September, the fund has gained 15.92% YTD, while the index has gained 12.15%.

Within major emerging markets, South Africa had been relatively weak in August, but rebounded in September, buoyed by both commodity prices and rising expectations that the struggling economy may be turning a corner. Russia also performed strongly. From a sector perspective, IT stocks were strong, with Apple's latest iPhone launch and takeover talks in Twitter. Energy rose on the back of oil price rises.

The fund's returns compared to MSCI EM in September were hurt slightly by the fund having slightly lower exposure to China, which was among the stronger markets, and South Africa, whose currency rallied. However, that impact was mostly offset by strong gains from some of our individual holdings. This included Chinese tire cord maker Xingda, China Shengmu Organic Milk, and Indian tire maker CEAT.

Meanwhile we saw some weakness in Indian holdings Yes Bank and Axis Bank, likely driven by profit taking after a strong August and year-to-date. In Mexico, our food company Gruma appeared to benefit from its somewhat defensive nature, losing less ground than the overall market.

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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.