

Ethical Emerging Markets Value

EQUITY

EM catches breath after solid YTD

Russia gains on oil prices

Markets In September, emerging market equities – as measured by MSCI EM – were roughly flat, gaining just 0.17 percent in EUR terms. Meanwhile, developed markets (MSCI World) rose 2.82 percent. This marks the first month this year in which emerging markets underperformed, and a flat month seems reasonable in the context of strong year-to-date gains.

In September, the US economy regained some traction, US 10-year bond yields rose, and the USD strengthened. This led to some weakness in EM currencies. The Turkish Lira and South African Rand are typically seen as being among the most vulnerable to USD strength, and indeed, they were among the weakest currencies in September.

Higher growth expectations pushed oil prices up almost 10 percent in the month, and this in turn drove Russia to be the best performing market in EM. Brazil also performed well, thanks to stronger economic data and a cut to policy interest rates amid lower inflation. Brazil has been the strongest EM market over the past quarter.

So far in 2017, emerging markets have seen both small cap stocks and value stocks underperforming the overall market. In September, small caps were roughly on par with the market, while value stocks continued to underperform. The main reason that growth stocks have had the upper hand in 2017 is that they include a much higher weight of technology stocks, which have been rallying strongly.

Strong returns versus value universe

The Portfolio In September, Sparinvest Ethical Emerging Markets Value returned -0.14 percent, slightly behind MSCI EM's

Return is calculated gross of fees and excluding swing.

0.17 percent. Year-to-date, the fund has gained 14.38 percent, just ahead of MSCI EM's 14.01 percent. Notably, MSCI EM Value is up only around seven percent so far this year, which suggests our stock picking value fund is well ahead of the wider value market.

In September, the fund saw a slightly negative impact from its allocation to different industry sectors. Most notably, compared to MSCI EM, the fund has relatively low exposure to IT stocks, which often appear to be more 'growth' than 'value'. Both year-to-date, and in September, the IT sector has performed very strongly, so the fund's underweight there limited our performance relative to MSCI EM.

Having said that, the fund has actually enjoyed some particularly strong performance from those IT stocks which it does hold, such as chipmaker SK Hynix and electronic component player BYD Electronic. This positive stock selection effect has to a large extent offset the negative impact of our underweight in the sector.

In a strong month for Brazil, our holding Banco do Brazil outperformed the wider market and was one of the fund's top contributors. Meanwhile, the fund's largest detractor was Sintex Plastics. Earlier this year, our Indian holding Sintex Industries split into two listed entities: one focused on spinning yarn, and the other focused on processing plastics into various products, including storage solutions such as water tanks and prefabricated structures, including toilets. The restructuring has been significantly value accretive for shareholders, and allows management a clear focus on building long-term value in the different companies. We are not overly concerned by short-term moves in the share price.

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.