

Sydinvest EM Sustainable Blended Debt acc I USD

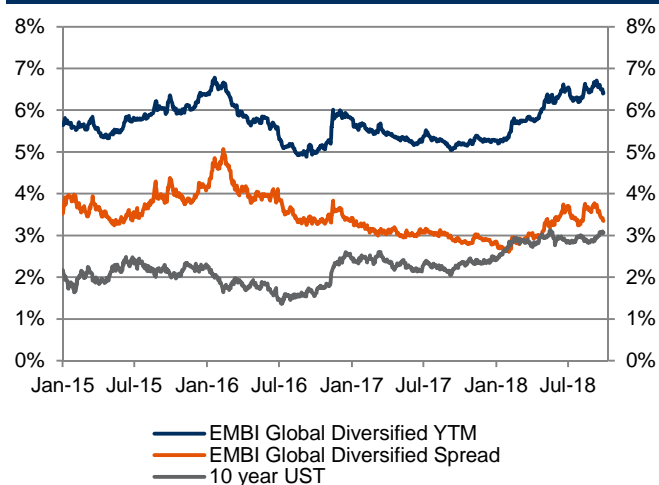
Quarterly Attribution Report - Q3 2018

9 October 2018

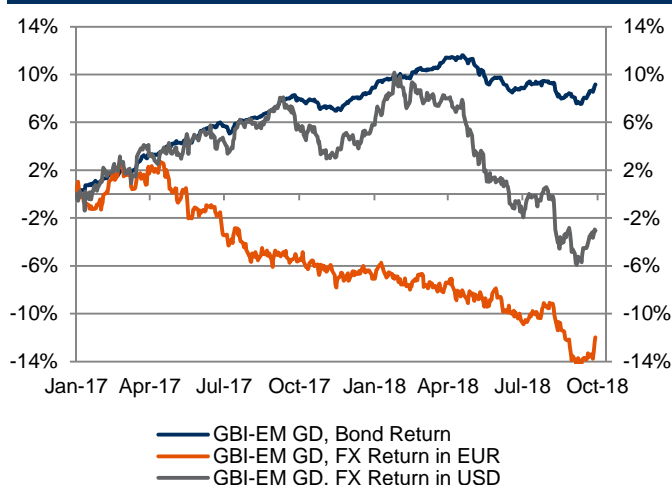
Main Points

- Emerging market hard currency bonds outperformed local currency bonds in Q3 as EM FX was under pressure.
- EM bonds issued in USD returned 2.30% in Q3 as the YTM decreased by 13bp to 6.41%. EM credit spreads tightened by 34bp to 335bp.
- EM bonds issued in local currency returned minus 1.82% unhedged to USD as EM currencies depreciated vs USD.
- The fund generated a return of 0.36% in Q3, which was 12bp higher than the return of its benchmark.
- The ESG exclusion of benchmark countries added 87bp to performance in Q3.

Hard currency benchmark YTM decreased by 13bp to 6.41% in Q3. EM credit spreads tightened by 34bp to 335bp.



EM local bonds returned minus 1.82% unhedged to USD as EM FX depreciated vs USD.



Performance Review: Portfolio return

The fund generated a return of 0.36% in Q3, which was 12bp higher than the return of its benchmark. The ESG exclusion of benchmark countries added 87bp to performance in Q3. The local currency part of the portfolio contributed positively to performance whereas the hard currency part was a drag on performance. In hard currency performance was positively affected by the ESG-related zero weights in Turkey and Russia, the underweight in Zambia, the asset allocation in Mexico as well as the overweight in Ghana. Conversely the overweight in Argentina, the asset selection in Peru and Indonesia as well as the ESG-related zero weight in Oman detracted from performance. In local currency performance was positively affected by the ESG-related zero weights in Turkey and Russia, the overweights in Mexico and Poland as well as the asset allocation in Brazil. Conversely the overweight in Zambia, the ESG-related zero weight in Thailand as well as the off-benchmark position in Ukraine detracted from performance as did the underweights in Hungary and Romania.

For further portfolio information please see pages 2 and 3.

Asset Class Review

EM bonds in both hard currency and local currency saw an extremely volatile Q3. Argentina, Turkey and Zambia were among the country specific stories shaping the market during the quarter. Furthermore President Trump's tweets and tariffs also had a negative effect. Emerging market bonds issued in USD returned 2.30% as the YTM fell by 13bp to 6.41%. The positive return was driven by a spread tightening of 34bp to 335bp. Higher US rates were a drag on return. The HY part of the benchmark fared a bit better than the IG part despite sell-offs in Zambia, Venezuela, Turkey and Argentina. Local currency emerging market bonds saw roughly unchanged rates at benchmark level with a slight tilt to rising rates. However this masks very large changes at country level. Rates rose by 455bp in Argentina and 303bp in Turkey. Russia came third with rates up by a still substantial 77bp whereas rates fell by 47bp in Romania. Local benchmark yields went up by 3bp to 6.62%. EM FX was weaker overall in Q3. The massive depreciations in Argentina and Turkey dwarf anything else in the benchmark. On the positive side Mexico stands out with a stronger peso after the strong election win by the leftist populist Andres Manuel Lopez Obrador "AMLO". A benchmark level the FX return was minus 2.06% vs USD.

Portfolio Strategy & Changes

The fund's asset allocation between hard currency bonds and local currency bonds is currently neutral.

In hard currency the largest overweights at the end of Q3 are Kuwait, Ghana and Colombia whereas the Philippines, Hungary and Malaysia are the largest active (non-ESG related) underweights so there are no substantial changes here in Q3. The weights do not show everything, the composition is equally important. Measured by duration the most significant overweights in the fund are Colombia, Uruguay and Mexico. The fund has several substantial overweights in frontier countries, for instance Ghana, Seychelles and Ivory Coast.

In local currency Mexico, South Africa and the Dominican Republic are the fund's largest FX overweights and South Africa is the largest duration overweight. Hungary and Romania are the largest active (non-ESG related) underweights. The fund reduced in Brazil due to the risk surrounding the presidential and parliamentary elections in October.

For further portfolio information please see page 2

Outlook

After a highly volatile quarter it is relevant to ask whether this trend will continue for the rest of the year. The short answer is no: we forecast a calmer fourth quarter but a quarter with no ripples or waves is not likely either. As regards the reasons for the large fluctuations in Q3, two countries, Argentina and Turkey, were responsible for most of the fluctuations and the negative impact on market sentiment in general. These two countries will continue to cause fluctuations but a lid was put on the worst concerns and risks in September.

Argentina managed to secure a new IMF deal giving the country more support over the next 18 months. In Turkey the central bank finally demonstrated some independence from President Erdogan by implementing a massive rate hike. In addition the government announced a new economic plan signalling in particular that it was willing to settle for lower economic growth in exchange for more balanced economic growth. Neither country is quite out of the woods yet but they have started to move in the right direction.

Despite various risks we are optimistic about the asset class because many of these factors are partly or fully priced in, which is why we expect a quieter end to the year.

Sydivest EM Sustainable Blended Debt: Performance attribution – Q3 2018

Performance

	Fund	Benchmark	Performance
Current quarter	0.36%	0.24%	0.12%
Year to date	-5.47%	-5.59%	0.12%

Performance Attribution

	Avg Wgt.	Fund	Benchmark	Performance
Allocation				0.00%
External Debt	50.00%	0.89%	1.14%	-0.24%
Local Debt	50.00%	-0.54%	-0.90%	0.36%
Total	100.00%	0.36%	0.24%	0.12%

Performance Attribution: Break-down

	Country	Asset	Interaction	FX Spot	Perf.
HC Excluded Countries	0.01%	0.00%	0.00%	0.00%	0.01%
LC Excluded Countries	0.33%	0.00%	0.00%	0.53%	0.86%
Total, Excluded Countries	0.35%	0.00%	0.00%	0.53%	0.87%
HC, non-Excluded Countries	-0.23%	-0.04%	-0.02%	0.04%	-0.26%
LC, non-Excluded Countries	-0.41%	-0.08%	0.22%	-0.23%	-0.50%
Total, non-Excl. Countries	-0.64%	-0.11%	0.19%	-0.19%	-0.75%
Total, Strategy	-0.29%	-0.11%	0.19%	0.33%	0.12%

ESG Excluded Countries: Top & Bottom in Hard Currency

Turkey	-1.70%	0.06%	0.00%	0.00%	0.00%	0.06%
Oman	-1.31%	-0.03%	0.00%	0.00%	0.00%	-0.03%

ESG Excluded Countries: Top & Bottom in Local Currency

Turkey	-2.36%	0.23%	0.00%	0.00%	0.65%	0.87%
Thailand	-4.05%	0.02%	0.00%	0.00%	-0.19%	-0.18%

*) The Strategy's total performance is a combination of the ESG excluded (mandatory underweights) as well as active over- and underweights relative to the benchmark.

Portfolio Summary – As at 28 September 2018

Five largest over- and under weights in the portfolio for Hard Currency (HC) Bonds

	Country	Bond Weight	O/U Weight	FX Weight	O/U FX Weight	Duration, PF	Duration, BM	Rel. Duration Cont.
5 Largest Overweights	Kuwait	2.04%	2.04%	-	-	3.22	0.00	0.07
	Ghana	2.40%	2.01%	-	-	6.42	6.38	0.13
	Colombia	3.18%	1.69%	-	-	12.52	9.08	0.26
	Ivory Coast	1.98%	1.57%	-	-	5.50	6.58	0.08
	Seychelles	1.44%	1.44%	-	-	3.03	0.00	0.04
5 Largest Underweights	Kazakhstan*	0.00%	-1.42%	-	-	0.00	8.73	-0.12
	Philippines	0.00%	-1.63%	-	-	0.00	8.59	-0.14
	Turkey*	0.00%	-1.73%	-	-	0.00	6.56	-0.11
	Russia*	0.00%	-1.76%	-	-	0.00	6.89	-0.12
	China*	0.00%	-2.24%	-	-	0.00	5.33	-0.12

*) The country is excluded from the fund because it is not considered to be ethically investable.

Five largest over- and under weights in the portfolio for Local Currency (LC) Bonds

	Country	Bond Weight	O/U Weight	FX Weight	O/U FX Weight	Duration, PF	Duration, BM	Rel. Duration Cont.
5 Largest Overweights	Mexico	7.50%	2.50%	7.51%	2.51%	4.25	5.12	0.06
	South Africa	6.63%	2.29%	6.64%	2.30%	7.76	7.28	0.20
	Dominican Rep.	1.86%	1.81%	1.86%	1.81%	6.41	3.51	0.12
	Indonesia	6.51%	1.80%	6.51%	1.80%	6.30	5.97	0.13
	Argentina	1.31%	1.02%	1.31%	1.02%	1.02	2.85	0.01
5 Largest Underweights	Romania	0.00%	-1.54%	0.00%	-1.54%	0.00	3.58	-0.06
	Turkey*	0.00%	-2.07%	0.00%	-2.07%	0.00	3.07	-0.06
	Hungary	0.00%	-2.37%	0.00%	-2.37%	0.00	4.17	-0.10
	Russia*	0.00%	-3.82%	0.00%	-3.82%	0.00	4.70	-0.18
	Thailand*	0.00%	-4.23%	0.00%	-4.23%	0.00	7.10	-0.30

*) The country is excluded from the fund because it is not considered to be ethically investable.

Rating distribution

S&P	
AAA	0.00%
AA	3.91%
A	7.41%
BBB	48.86%
BB	22.83%
B	8.97%
CCC and below	2.52%
Not rated	5.49%
Default	0.00%

Concentration risk

Country	Total Bond	HC Bond	LC Bond	Ccy Exp.
Mexico	10.64%	3.14%	7.50%	7.51%
Indonesia	9.50%	2.99%	6.51%	6.51%
South Africa	9.03%	2.40%	6.63%	6.64%
Brazil	7.56%	2.12%	5.44%	5.45%
Colombia	7.08%	3.18%	3.90%	3.90%
Poland	6.87%	1.37%	5.50%	5.55%
Dominican Rep.	4.16%	2.31%	1.86%	1.86%
Argentina	4.05%	2.74%	1.31%	1.31%
Peru	3.30%	2.02%	1.28%	1.28%

Duration distribution

Dur. Years	Weight	Avg. Dur.
0-2	13.92%	0.55
2-5	36.00%	3.41
5-10	39.63%	7.08
10-15	6.80%	11.82
15+	3.64%	16.34
Total	100.00%	5.51

Hard Currency: Active Strategies in non-excluded Countries*

	Average OW/UW	Country	Asset	Interaction	FX Spot	Total
Top 5 Contributors	Zambia	-0.23%	0.05%	0.00%	0.00%	0.05%
	Mexico	0.51%	0.00%	0.04%	0.01%	0.04%
	Ghana	1.98%	0.04%	0.00%	0.00%	0.00%
	Uruguay	0.84%	0.01%	0.01%	0.01%	0.00%
	Senegal	1.34%	0.05%	0.00%	-0.01%	0.00%
Bottom 5 Contributors	Kuwait	2.06%	-0.03%	0.00%	0.00%	-0.03%
	Pakistan	-0.55%	-0.03%	0.00%	0.00%	-0.03%
	Indonesia	0.89%	0.00%	-0.03%	-0.01%	0.00%
	Peru	0.60%	0.00%	-0.03%	-0.01%	0.00%
	Argentina	1.21%	-0.03%	-0.04%	-0.03%	0.00%

Local Currency: Active Strategies in non-excluded Countries*

	Average OW/UW	Country	Asset	Interaction	FX Spot	Total
Top 5 Contributors	Mexico	2.58%	-0.01%	0.02%	0.01%	0.20%
	Brazil	0.58%	0.01%	0.03%	0.00%	0.01%
	Poland	0.90%	0.00%	0.00%	0.00%	0.04%
	Argentina	1.09%	-0.10%	0.09%	0.23%	-0.19%
	Malaysia	0.80%	0.02%	-0.01%	0.00%	0.01%
Bottom 5 Contributors	Indonesia	2.00%	0.01%	-0.02%	-0.01%	-0.02%
	Romania	-1.37%	-0.03%	0.00%	0.00%	-0.03%
	Ukraine	0.83%	-0.03%	0.00%	0.00%	-0.04%
	Hungary	-2.30%	-0.01%	0.00%	0.00%	-0.08%
	Zambia	0.85%	-0.14%	0.00%	0.00%	-0.11%

Sydivest EM Sustainable Blended Debt: Country Exclusion Overview

Sovereign ESG exclusions in Strategy - Restrictions on Investment Universe

Country	UN or EU Sanction?	Freedom House	Sydbank Sov. ESG Score	50% EMBI Wgt.	50% GBI-EM Wgt	Substitute for excluded country
Angola	No	Not Free	48 ↓	0.52%	0.00%	Ghana, Kenya, Nigeria
Azerbaijan	No	Not Free	49 ↓	0.59%	0.00%	Indonesia, Colombia, Mexico, S.Africa
Bahrain	No	Not Free	54 ↓	0.00%	No market	None
Belarus	Yes, weapons	Not Free	52 ↑	0.20%	No market	None
Cameroon	No	Not Free	41 ↓	0.08%	0.00%	Ghana, Kenya, Nigeria
China	Yes, weapons	Not Free	59 ↓	2.24%	0.00%	None
Congo (DRC)	No	Not Free	26 ↓	0.00%	0.00%	None
Cuba	No	Not Free	56 ↑	0.00%	No market	None
Egypt	Yes, weapons	Not Free	49 ↑	1.29%	0.00%	None
Ethiopia	No	Not Free	41 ↑	0.10%	No market	Ghana, Kenya, Nigeria
Gabon	No	Not Free	50 ↓	0.20%	0.00%	None
Iraq	No	Not Free	36 ↓	0.34%	No market	Ghana, Kenya, Nigeria
Kazakhstan	No	Not Free	58 ↓	1.42%	0.00%	Indonesia, Colombia, Mexico, S.Africa
Oman	No	Not Free	62 ↓	1.33%	No market	Poland
Qatar	No	Not Free	68 ↓	0.00%	0.00%	Poland
Russia	Yes, weapons	Not Free	54 ↑	1.76%	3.82%	Indonesia, Colombia, Mexico, S.Africa
Rwanda	No	Not Free	52 ↓	0.00%	No market	None
Saudi Arabia	No	Not Free	56 ↑	0.00%	0.00%	None
Tajikistan	No	Not Free	36 ↑	0.04%	No market	None
Thailand	No	Not Free	56 ↓	0.00%	4.23%	Malaysia, Philippines
Turkey	No	Not Free	53 ↓	1.73%	2.07%	Indonesia, Mexico, S. Africa
Uganda	No	Not Free	48 ↓	0.00%	0.00%	None
United Arab Emirates	No	Not Free	68 ↓	0.00%	No market	Equador, Zambia
Venezuela	No	Not Free	34 ↑	0.51%	0.00%	None
Vietnam	No	Not Free	57 ↓	0.17%	No market	Equador, Zambia

Total investment markets excluded / Total excluded countries	Total BM weight of excluded countries	Total BM Countries	Total, 50% EMBI	Total, 50% GBI-EM	Benchmark
24 / 54 (incl. countries with no market and/or international sanctions)	22.44%	16	12.33%	10.12%	50% EMBI GD + 50% GBI-EM GD

Sydbank Sovereign Exclusion Process

The Fund has excluded a total of 55 countries from the universe of which 17 are a part of the Fund's blended benchmark. The key criteria for exclusions are:

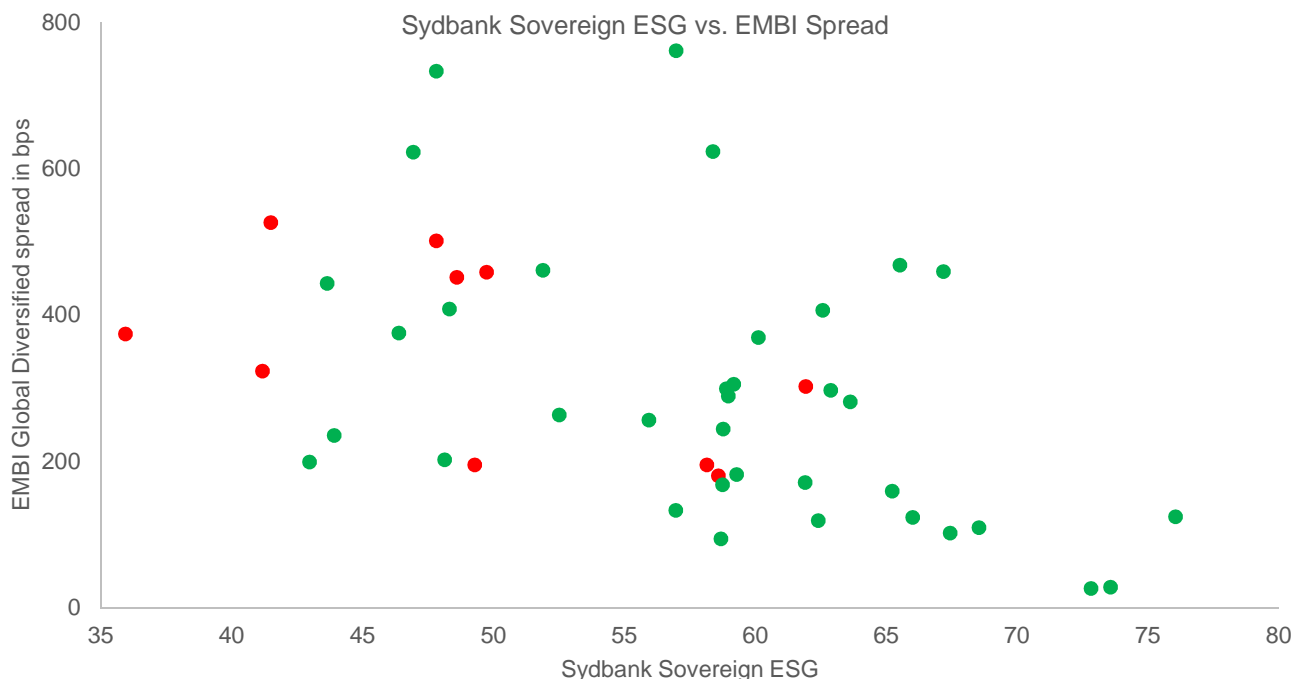
- 1: Countries subject to either UN or EU weapons embargo, or
- 2: Countries categorised as "Not Free" by Freedom House, or
- 3: Countries for which the outcome of the manager's internal quantitative and qualitative ESG process is below the minimum sustainability level for investments.

Note regarding the Investment Universe

"No Market" = The country has no accessible bond and/or FX market in the respective asset class. Countries subject to international sanctions are always labeled "No market" regardless of whether the country has issued bonds or not.

A 0.00% weight in BM means that the country is an off-BM market that has been excluded from the investment universe.

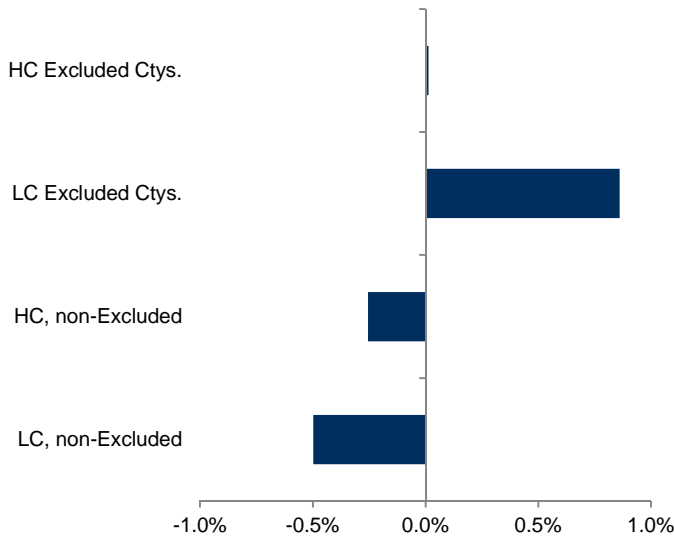
Hard Currency Benchmark: Mapping of Excluded Countries vs. Investable Countries Red = excluded / Green = allowed



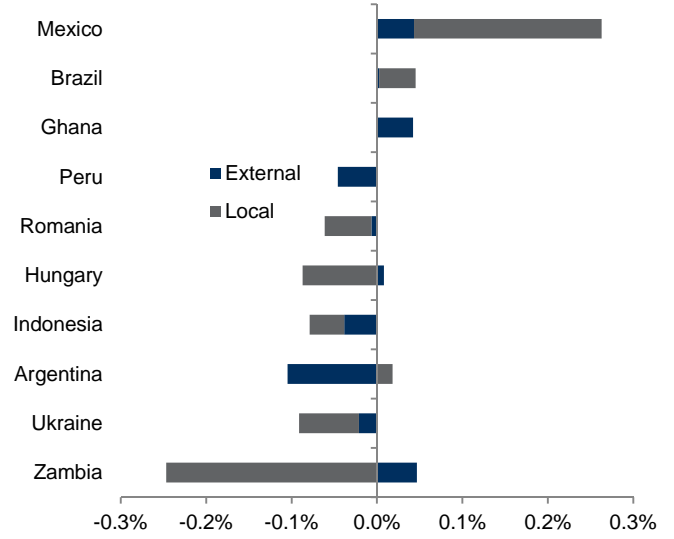
Note: Due to extreme EMBI spreads Mozambique and Venezuela are not included in above chart. Venezuela is an excluded country.

Sydinvest EM Sustainable Blended Debt: Performance attribution – Q3 2018

Attribution: Break-down on ESG and Asset Class

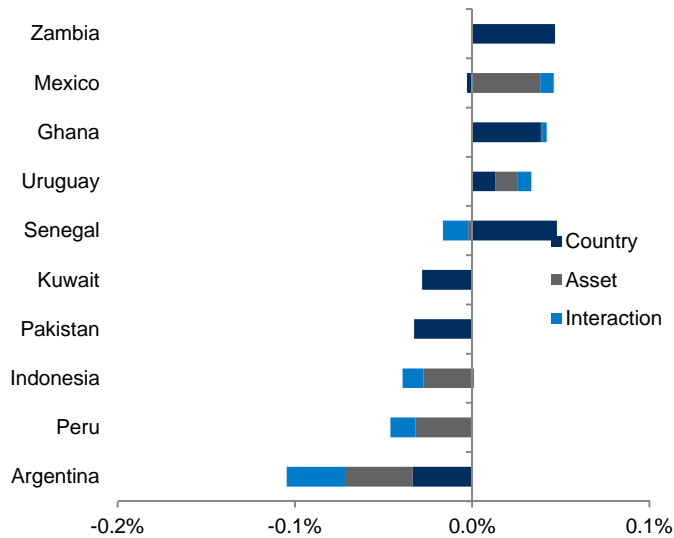


Attribution split: Most important Active Strategies

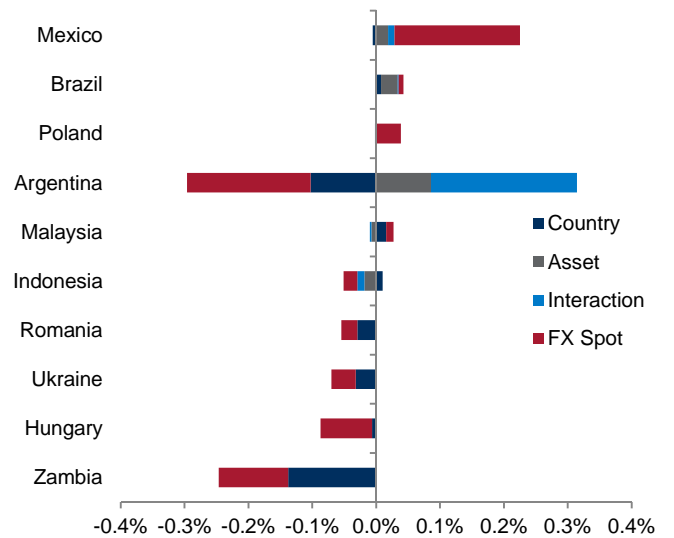


***) The graphs only show Active Strategies, i.e. contributions from mandatory exclusions are not displayed.

External debt: Most important contributors**



Local debt: Most important contributors**



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