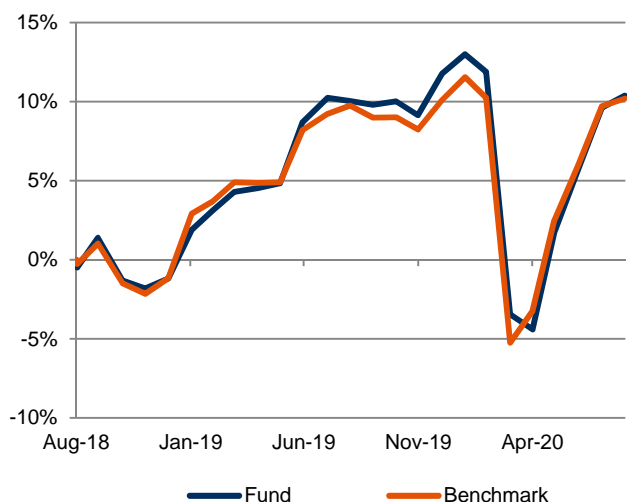


# Sydinvest EM Sustainable Bonds d W DKK

Monthly Report - August 2020

7 September 2020

## Historical return: Fund vs. Benchmark, % DKK net of fee



## Returns net of fees, end of month.

	Mth	YtD	-3 Mth	-6 Mth	-1 Yr
Fund	0.72%	-1.23%	8.53%	-1.34%	0.31%
Benchmark	0.45%	0.10%	7.51%	-0.04%	0.41%
Performance	0.26%	-1.33%	1.02%	-1.31%	-0.10%

## Key Figures

Ratios, end of month	August	Change	July
Fund Yield to maturity *	4.22%	0.02%	4.20%
Benchmark Yield to maturity †	4.27%	0.05%	4.22%
Fund Duration	8.02	-0.07	8.09
Benchmark Duration	7.83	-0.10	7.93
No. of countries	31	0	31
Gov. bonds, %	91.45%	1.14%	90.31%
Quasi Sov., %	3.88%	0.14%	3.74%
Cash, %	4.77%	-0.84%	5.61%
Total AUM, mn DKK	943.04	13.17	929.86
NAV	108.82	0.77	108.05
Avg. rating S&P	BB+		BB+
Beta, since inception	0.94	0.00	0.94
Track. Error, since inception	2.67%	-0.05%	2.72%
Sharpe Ratio, since inception	0.45	0.02	0.43
Info. Ratio, since inception	0.03	0.05	-0.02
Volatility, since inception	12.30%	-0.26%	12.56%
BM Weight of ESG country exclusion**	21.34%	21.34%	0.00%
Weight of Quasi-Sov. Oil & Gas excl.**	8.49%	0.02%	8.47%
Total ESG exclusion.*	29.84%	21.36%	8.47%

\* This is duration weighted yield to maturity and will differ from official numbers by JPMorgan.

\*\* Please refer to the last page in this report for a complete overview of the results from the ESG analysis. The table shows the benchmark weight of excluded sovereigns and quasi-sovereigns and the factors in the ESG approach that led to an exclusion (e.g. sanctions or a low SDG score).

## ESG Strategy Profile & Objective

The fund aims to deliver long-term excess return to the JP Morgan EMBI Global Diversified benchmark through active management. The portfolio construction approach incorporates a systematic ESG research approach towards emerging market countries and quasi-sovereign corporates where the fund manager use a conviction-based investment approach to find an attractive combination of ESG and good value.

## Fund performance summary

The fund generated a return of 0.72% net of fees in August, which was 26bp better than the return of its benchmark. The exclusion of benchmark countries and quasi sovereigns added 7bp to the fund's performance in August.

Performance was affected positively by the overweights in Ghana, Senegal and Ukraine, the underweight in the Philippines, the overweight and asset allocation in Argentina as well as the ESG-related zero weights in Saudi Arabia and the UAE. Conversely the overweights in Qatar, Romania and Uruguay as well as the ESG-related zero weights in Turkey and Pemex, the Mexican quasi sovereign, detracted from performance.

## Portfolio strategy and changes

The fund is underweight in spread duration and slightly overweight in Treasury duration, which is a result of a reduction in spread duration compared to the beginning of the month. The fund holds a wide range of bonds issued in EUR while the benchmark is pure US dollar. The resulting mismatch between Bunds and UST is hedged with futures. The fund's investments are spread across around 30 countries and more than 60 issues.

In August we reduced duration in Mexico by moving part of the position in the 2110 bond to a 2030 bond.

## Key Fund Information

Name of AIF/ Fund	Værdipapirfonden Sydinvest HøjrenteLande ESG KL
Investment Universe	Global Emerging Market Bonds Hard Currency
Benchmark	JPM EMBI GD (hedged to DKK)
Security Guidelines	Sovereign & quasi sovereign only
Duration Limits	Benchmark +/- 3 years
FX Exposure and Hedging	Hard currency hedged to DKK. No Local Currency
Unlisted Bond Limit	Maximum 10%
Financial Derivative Instruments Allowed	Hard Currency Bond, Treasury Futures, deposits and Credit-Linked Notes.
Return Profile	Dividend / Distribution
Legal structure	UCITS IV
Country of domicile / Currency	Denmark / DKK
Dealing day/NAV date	Daily
Initiation date	30.08.2018
ISIN CODE	DK0061067303
Bloomberg Ticker	TBC
TER ( inclusive management fee)	0.63% p.a.
ADL charge on dealings	Mid market NAV + 0.46% in ADL
Investment Management Comp.	Syd Fund Management A/S, Denmark
Portfolio Advisor	Sydbank Emerging Markets, Denmark
Financial Regulator	FSA, Denmark (Finanstilsynet)
Custodian / TA	Sydbank A/S (Sub-custody: JP Morgan)

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## Important disclosure for investors

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# Sydneyinvest EM Sustainable Bonds d W DKK

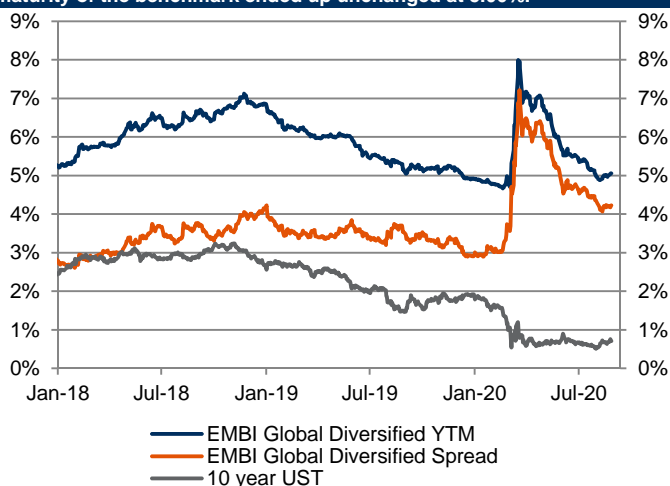
## Monthly Report - August 2020

7 September 2020

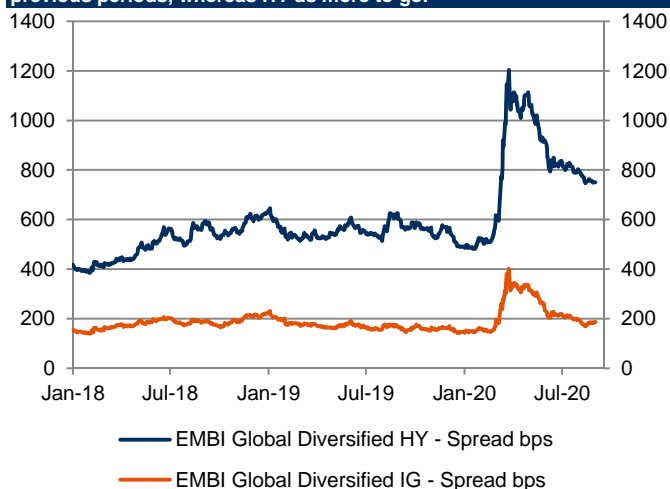
### EM Bond Markets – August

August was a risk-on month - equities, HY bonds and oil rallied while US rates rose. In EM bonds the HY part of the benchmark rallied whereas the IG part struggled with the higher US rates. Benchmark EM hard currency credit spreads narrowed by 17bp to 423bp. As in July the High Yield part of the benchmark saw the largest narrowing. The higher US rates neutralised the spread tightening and the yield to maturity of the benchmark ended up unchanged at 5.06%. Behind the unchanged YTM is a rise in the IG YTM of 17bp and a fall in the HY part of 29bp. The monthly benchmark return could therefore be calculated at 0.45% hedged to DKK. The weakest credits in August were Zambia, where the president fired the head of the central bank, Lebanon, due to the explosion in Beirut's harbour and Belarus, where political uncertainty after the rigged election caused bonds to trade down. Sri Lanka was the top performer in the benchmark after the election gave a strong majority to the government.

**Benchmark EM hard currency credit spreads narrowed by 17bp to 423bp. The higher US rates neutralised the spread tightening and the yield to maturity of the benchmark ended up unchanged at 5.06%.**



**In EM bonds the HY part of the benchmark rallied whereas the IG part struggled with the higher US rates. IG is more or less back in line with previous periods, whereas HY as more to go.**



### Asset Class Outlook

The US central bank (Federal Reserve) announced after a scheduled review that it was changing its longer-run goals and monetary policy strategy. It adjusted its strategy for achieving its longer-run inflation target of 2% by noting that it "seeks to achieve inflation that averages 2 percent over time." It added that "following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time." This is a fairly significant yet subtle change which signifies that it is officially moving from a policy of previously tolerating inflation above its target for short periods to expressly targeting higher inflation for longer periods. This implies to us a much more relaxed monetary policy.

This supports the view that US and, by inference, developed market interest rates are set to remain close to zero for a significant period and provides a positive backdrop for risky assets such as emerging market hard currency bonds. It does bring the risk of higher interest rates in longer maturity bonds but we see this as a well-controlled change.

The US presidential election, set to take place on 3 November, is likely to take centre stage in the next two months. Whilst Democratic candidate Joe Biden remains the favourite to win, President Trump has seen something of a revival in his chances of a second term of late. We think the result is too close to call.

We are continuing to see re-openings of different sectors of the global economy, which ultimately supports a return to economic growth. Intermittent lockdowns may become more likely if cases increase heading into the Northern hemisphere's winter. We have seen some progress with different corona vaccines but not enough progress has been made just yet.

Despite a small decrease in August, one could argue that EM sovereign credit spreads are currently cheap as they remain 130 basis points above the level from the end of 2019. We would not go so far as to call them cheap as this increase reflects the repercussions for emerging markets from the Covid-19 shock but if risk appetite continues to improve in line with the expected recovery from Covid-19, we would expect EM sovereign credit spreads to continue to decline. This remains our expectation.

Sri Lanka's bonds recovered very strongly in August rising by almost 12% after an election win for the incumbent SLPP. Debt-sustainability remains a concern for us despite the positive evolution of prices and yields. The strong mandate given to the SLPP after the election on 5 August is a positive in terms of policymaking and should make reaching an agreement with the IMF easier, as well as with China on debt funding.

Ecuador reached a new loan agreement with the IMF, which was a precondition for proceeding with its bond restructuring exchange. We accepted the offer to exchange and bond prices have responded extremely well to the announcement that 98.5% of bonds will be exchanged. The IMF will lend Ecuador USD 6.5bn, which was a bigger amount than expected and helps partially cover the country's financing needs for 2020-2022. The front-loading of the funds will allow it to stay out of the bond market for some time as it is hoping to secure USD 2.5-3bn from China.

There was a breakthrough between bondholders and Argentina as the sovereign increased the value of its bond exchange offer once more in August. It also softened its stance on some key legal aspects of the offer. We therefore accepted the offer and the results of the exchange showed a very positive outcome, with over 99% of bonds exchanged. The result as well as the increase in benchmark weight should produce strong returns when the bonds start to trade in early September. Profit taking from distressed debt holders as well as the macroeconomic challenges faced by the government should keep a ceiling on prices for now.

Malaysia received a USD 2.5bn payment from Goldman Sachs in August. This is part of a USD 3.9bn settlement that the US bank reached for its role in a corruption case in which Malaysia's ex-Prime Minister Najib has been convicted in relation to wrongdoings at its sovereign wealth fund. It is of course positive news that Malaysia can recoup such a vast sum but we remain underweight as we fear that the country whose politics can be compared to an episode of Game of Thrones is still struggling to clean up its act.

Mexico bonds and in particular those of state-owned oil company Pemex added to performance in August. Pemex has struggled with falling oil production and corporate inefficiencies but Mexico is coming back into favour with investors. The spread to the sovereign in Pemex remains very attractive in our view.

## Sydivest EM Sustainable Bonds d W DKK: Performance attribution

### Performance Attribution

Total	Country	Asset	Interaction	Cost	Residual
0.26%	0.05%	0.23%	0.09%	-0.04%	-0.07%

Total	Investment	Cash	Cost
0.26%	0.33%	-0.03%	-0.04%

### Performance Attribution: Break-down

	Country	Asset	Interaction	Performance
Excluded Countries	0.08%	0.00%	0.00%	0.08%
Excluded Quasi-Sovereigns	0.00%	0.00%	0.00%	0.00%
Selected Strategies	0.25%	-0.07%	0.06%	0.23%
Cost	-0.04%	0.00%	0.00%	-0.04%
<b>Total</b>	<b>0.28%</b>	<b>-0.07%</b>	<b>0.06%</b>	<b>0.26%</b>

### ESG Excluded Countries or company: Top & Bottom

	OW/UW	Performance
Saudi Arabia	-3.91%	0.11%
United Arab Emirates	-3.66%	0.07%
Malaysia	-1.81%	0.04%
Indonesia	-1.44%	0.03%
Azerbaijan	-0.99%	-0.01%
Nigeria	-1.49%	-0.06%
Mexico	-2.11%	-0.06%
Turkey	-3.11%	-0.08%

### Active Strategies in non-excluded Countries: Top contributors\*

	Average OW/UW	Country	Asset	Interaction	Total	
Top 5 Contributors	Ghana	3.27%	0.08%	0.00%	0.01%	0.10%
	Philippines	-3.03%	0.09%	0.00%	0.00%	0.09%
	Argentina	1.42%	0.05%	0.02%	0.02%	0.09%
	Ukraine	2.74%	0.07%	0.01%	0.01%	0.09%
	Senegal	3.13%	0.11%	0.00%	-0.03%	0.08%
Bottom 5 Contributors	Pakistan	-0.74%	-0.03%	0.00%	0.00%	-0.03%
	El Salvador	-0.83%	-0.03%	0.00%	0.00%	-0.03%
	Uruguay	3.60%	-0.06%	0.01%	0.01%	-0.04%
	Romania	3.42%	-0.08%	0.01%	0.01%	-0.06%
	Qatar	3.89%	-0.11%	0.00%	0.00%	-0.12%

### Active Strategies in non-excluded Countries: Top OW/UW\*

	Average OW/UW	Country	Asset	Interaction	Total	
Top 5 Contributors	Mexico	5.15%	-0.01%	0.01%	0.02%	0.03%
	Indonesia	5.09%	-0.04%	0.02%	0.02%	0.00%
	Qatar	3.89%	-0.11%	0.00%	0.00%	-0.12%
	Uruguay	3.60%	-0.06%	0.01%	0.01%	-0.04%
	South Africa	3.43%	0.03%	0.00%	0.00%	0.03%
Bottom 5 Contributors	Poland	-1.37%	0.00%	0.00%	0.00%	0.00%
	Peru	-1.41%	0.03%	0.07%	-0.04%	0.06%
	Kazakhstan	-1.54%	-0.01%	0.00%	0.00%	-0.01%
	Bahrain	-2.25%	-0.03%	0.00%	0.00%	-0.03%
	Philippines	-3.03%	0.09%	0.00%	0.00%	0.09%

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

## Portfolio Summary – As at 31 August 2020

### Ten largest Active over- and underweight allocations in the portfolio.

	Country	Weight, PF	Weight, BM	Over/underweight	Duration, PF	Duration, BM	Rel. Duration Cont.
10 Largest Overweights	Qatar	7.32%	3.64%	3.68%	12.04	11.08	0.48
	Uruguay	6.06%	2.55%	3.51%	11.95	12.63	0.40
	Indonesia	8.14%	4.65%	3.49%	8.32	9.20	0.25
	Romania	4.95%	1.55%	3.41%	10.62	8.84	0.39
	Ghana	4.49%	1.22%	3.27%	5.72	6.59	0.18
	Senegal	3.59%	0.38%	3.21%	5.36	8.52	0.16
	Mexico	7.76%	4.63%	3.13%	11.52	9.09	0.47
	South Africa	5.42%	2.41%	3.01%	5.67	7.09	0.14
	Ukraine	5.18%	2.39%	2.78%	3.03	4.97	0.04
	Dominican Rep.	4.56%	2.38%	2.18%	7.89	8.35	0.16
10 Largest Underweights	Peru	1.34%	2.98%	-1.65%	2.00	9.79	-0.27
	Bahrain	0.00%	2.55%	-2.55%	0.00	5.54	-0.14
	Kazakhstan	0.00%	2.66%	-2.66%	0.00	9.05	-0.24
	Malaysia	0.00%	2.71%	-2.71%	0.00	9.41	-0.25
	Philippines	0.00%	3.13%	-3.13%	0.00	9.03	-0.28
	Turkey*	0.00%	3.19%	-3.19%	0.00	5.86	-0.19
	Russia*	0.00%	3.48%	-3.48%	0.00	8.13	-0.28
	United Arab Emirates*	0.00%	3.72%	-3.72%	0.00	9.56	-0.36
	Saudi Arabia*	0.00%	3.89%	-3.89%	0.00	9.87	-0.38
	China	0.00%	4.16%	-4.16%	0.00	6.02	-0.25

\* ) The country is excluded from the fund due to the ESG process. Please refer to the last page.

### Rating distribution

S&P	
AAA	0.00%
AA	8.20%
A	2.64%
BBB	36.40%
BB	20.93%
B	28.95%
CCC and below	1.89%
Not rated	1.00%
Default	0.00%

### Concentration risk

Country	Weight
Indonesia	8.14%
Mexico	7.76%
Qatar	7.32%
Uruguay	6.06%
South Africa	5.42%
Ukraine	5.18%
Romania	4.95%
Dominican Rep.	4.56%
Ghana	4.49%

### Duration distribution

Dur. Years	Weight	Avg. Dur.
0-2	11.28%	0.71
2-5	18.95%	3.47
5-10	41.62%	6.45
10-15	17.79%	11.68
15+	10.36%	17.21
<b>Total</b>	<b>100.00%</b>	<b>7.28</b>

## Sydinvest EM Sustainable Bonds d W DKK: Exclusion Overview

### Excluded countries that are either benchmark countries or have a bond market.

Country	Excluded		Sanctions		Sydbank Sovereign ESG		SDG	Benchmark
	CORE	PLUS	CORE	PLUS	CORE	PLUS	PLUS	Weight
Angola		X					X	0.97%
Azerbaijan		X					X	0.98%
Belarus		X		X				0.51%
Benin		X					X	0.00%
Burkina Faso		X					X	0.00%
Cameroon		X					X	0.11%
Congo (DRC)	X	X		X	X	X	X	0.00%
Congo-Brazzaville		X					X	0.00%
Cote d'Ivoire		X					X	0.47%
Ethiopia		X					X	0.14%
Guatemala		X					X	0.81%
Honduras		X					X	0.28%
Iraq	X	X			X	X		0.48%
Lebanon		X		X			X	0.35%
Mali		X					X	0.00%
Mozambique		X					X	0.11%
Nigeria		X					X	1.49%
Papua New Guinea		X					X	0.07%
Russia		X		X				3.48%
Saudi Arabia		X		X				3.89%
Tajikistan		X					X	0.06%
Turkey		X					X	3.19%
Uganda		X					X	0.00%
United Arab Emirates		X		X				3.72%
Venezuela	X	X		X	X	X		0.00%
Zambia		X					X	0.23%
0	X	X		X	X	X		0.00%
0		X					X	0.00%
<b>Total Countries</b>								<b>Benchmark</b>
<b>28</b>								<b>21.34%</b>

### Excluded Quasi-Sovereign Companies from investable countries.

Country	Company	Bloomberg			Benchmark
		Ticker	Industry Sector	Industry Group	Weight
Bahrain	National Oil and Gas Holding (NOGA)	OILGAS	Energy	Oil&Gas	0.28%
Chile	Empresa Nacional del Petroleo	ENAPCL	Energy	Oil&Gas	0.26%
Croatia	Hrvatska Elektroprivreda	HRELEC	Utilities	Electric	0.08%
Georgia	Georgian Railway JSC	GRAIL	Industrial	Transportation	0.07%
Indonesia	Indonesia Asahan Aluminium Persero	IDASAL	Basic Materials	Mining	0.24%
Indonesia	Perusahaan Perseroan Persero	PLNIJ	Utilities	Electric	0.51%
Indonesia	Pelabuhan Indonesia II	PLBIJ	Industrial	Transportation	0.07%
Indonesia	Pertamina Persero	PERTIJ	Energy	Oil&Gas	0.61%
Kazakhstan	KazTransGas JSC	KZTGKZ	Energy	Pipelines	0.11%
Kazakhstan	KazMunayGas National Co JSC	KZOKZ	Energy	Oil&Gas	1.04%
Malaysia	Petroleum Nasional Bhd	PETMK	Energy	Oil&Gas	1.80%
Mexico	Comision Federal de Electricidad	CFELEC	Utilities	Electric	0.17%
Mexico	Petroleos Mexicanos	PEMEX	Energy	Oil&Gas	1.99%
Peru	Petroleos del Peru SA	PETRPE	Energy	Oil&Gasices	0.33%
Philippines	Power Sector Assets & Liabilities Man	PSALM	Financial	Diversified Finan. Serv	0.14%
South Africa	Eskom Holdings SOC Ltd	ESKOM	Utilities	Electric	0.36%
South Africa	Transnet SOC Ltd	SAFTRA	Industrial	Transportation	0.10%
Trinidad And Tobago	Trinidad Generation UnLtd	TRNGEN	Utilities	Electric	0.09%
Trinidad And Tobago	Trinidad Petroleum Holdings Lt	TPHLTT	Energy	Oil&Gas	0.09%
Ukraine	NAK Naftogaz Ukraine	NAFTO	Energy	Oil&Gas	0.07%
Ukraine	Ukraine Railways	RAILUA	Industrial	Transportation	0.08%
<b>Total Companies</b>					<b>Benchmark</b>
<b>21</b>					<b>8.49%</b>