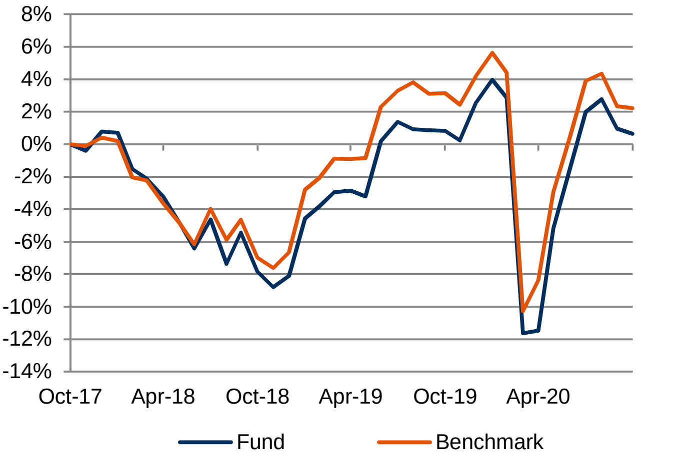
Sydinvest Emerging Markets Bonds I EUR Acc h

Monthly Report - October 2020
5 November 2020

5 yrs. rolling return: Fund vs. JPMorgan EMBI GD (EUR hed.), %



Returns net of fees, end of month

	Mth	YtD	-3 Mth	-6 Mth	-1 Yr
Fund	-0.32%	-1.89%	-1.33%	13.70%	-0.19%
Benchmark	-0.10%	-1.91%	-1.59%	11.56%	-0.88%
Performance	-0.22%	0.03%	0.26%	2.14%	0.69%

Fund Profile & Objective

The fund aims to deliver long-term excess return to the JP Morgan EMBI Global Diversified benchmark through active management in emerging markets countries and quasi-sovereign corporates. The portfolio construction focus on utilising fundamental changes across social, economic, political, institutional and environmental risk factors that causes valuation inefficiencies in credits within countries and between issuers.

Fund Manager Report

Sydinvest Emerging Markets Bonds generated a return of minus 0.32% in October, which was 22bp lower than the return of its benchmark.

Performance was affected positively by the overweight in the Ivory Coast, the asset allocation in Romania, the zero weights in Costa Rica and El Salvador as well as the overweight and the asset allocation in Egypt. Conversely the overweight in Argentina, the asset allocation in Ukraine as well as the underweight in Kazakhstan detracted from performance.

Portfolio strategy and changes

The fund is underweight in spread duration and slightly overweight in Treasury duration, which is the same as at 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 40 countries and more than 100 issues.

In October we made a switch from a state owned bank in Turkey to the sovereign. We reduced in Oman and Kenya. We added in Mongolia.

Key Figures

Ratios, end of month	October	Change	September
Fund Yield to maturity *	4.80%	0.03%	4.77%
Benchmark Yield to maturity *	4.43%	-0.01%	4.43%
Fund Duration	8.05	-0.11	8.16
Spread Duration	7.31	-0.05	7.36
Benchmark Duration	7.84	-0.04	7.88
No. of countries	42	0	42
No. of issues	132	0	132
Gov. bonds, %	81.90%	-0.20%	82.11%
Quasi Sov., %	16.09%	-0.21%	16.30%
Cash, %	2.10%	0.45%	1.65%
Total Fund AUM, mn EUR	203.84	-1.84	205.67
NAV	2,614.79	-8.33	2,623.12
Avg. rating S&P	BB+		BB+
Beta, 3Yr.	0.99	0.00	0.99
Track. Error, 3 yr	1.90%	0.00%	1.90%
Sharpe Ratio, 3 yr	0.07	-0.02	0.08
Info. Ratio, 3 yr	-0.28	-0.06	-0.21
Jensen Alpha, 3 yr	-0.52%	-0.12%	-0.40%
Volatility, 3 yr	11.07%	0.00%	11.07%

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

Key Fund Information

Name of SICAV/FCP and Fund	"Sydinvest HojrenteLande Akkumulerende Akk"
Share Class	" I EUR Acc h" (Institutional / EUR / hedged)
Benchmark	JP Morgan EMBI Global Diversified hedged to EUR
Security Guidelines	Sovereign & quasi sovereign only
Duration Limits	Benchmark +/- 2 years
FX Exposure and Hedging	USD exposure hedged to EUR
Issuer limit/Unlisted Bond	10% /Maximum 10%
Financial Derivative Instruments Allowed	Eurobonds, CDS, FX Forwards, NDFs, Deposits, Credit-Linked Notes, Treasury Futures.
Return Profile	Accumulation
ISIN CODE	DK0060646396
Country of domicile	Denmark
Bloomberg ticker / Reuters	NA
Initiation date	30.09.2002
Dealing day/NAV date	Daily
UCITS	UCITS IV
Total Expense Ratio	0.59 % p.a
Investment Advisor Fee	0.45% p.a.
Investment Management Comp.	Syd Fund Management A/S, Denmark
Portfolio Advisor	Sydbank A/S, Denmark
Financial Regulator	FSA, Denmark (Finanstilsynet)

Investor Relations Contact
Christian Farø
Senior Institutional Sales Manager
Sydbank Emerging Markets
christian.faroe@sydbank.dk
Phone: +45 7437 3722

Investment Manager
Syd Fund Management A/S
Peberlyk 4 · DK-6200 Aabenraa
Denmark
www.sydinvest-em.com

Portfolio Advisor
Sydbank Emerging Markets
Peberlyk 4 · DK-6200 Aabenraa
Denmark
em@sydbank.dk
www.sydbank.com

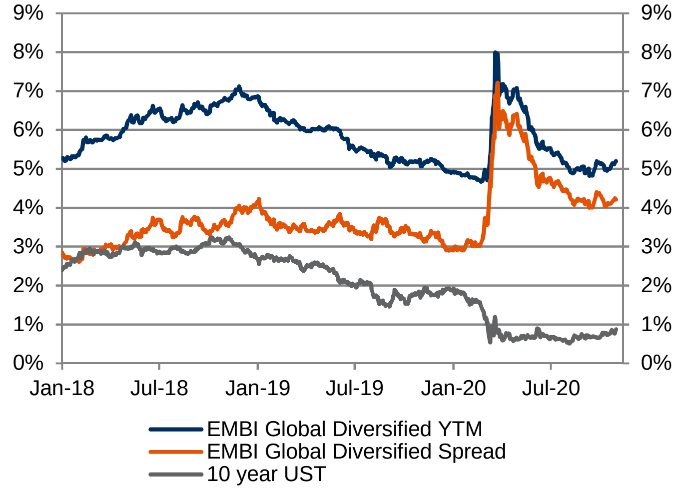
Sydinvest Emerging Markets Bonds I EUR Acc h

Monthly Report - October 2020
5 November 2020

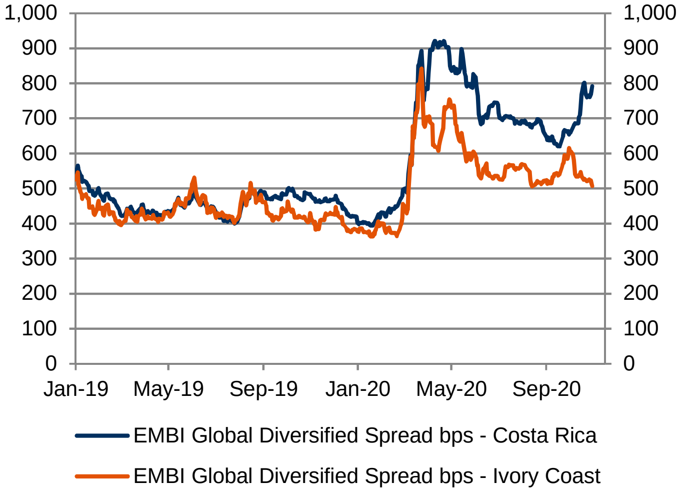
Hard Currency Emerging Market bond market – October

October was a risk-off month with US equity markets down and oil prices lower. For EM bonds higher US rates provided further headwinds. In this light a benchmark return of almost zero was not that bad. Benchmark EM hard currency credit spreads tightened by 12bp to 421bp. The spread widening could not make up for the higher US rates and the yield to maturity of the benchmark rose by 5bp to 5.20%. The result was a monthly benchmark return of minus 0.10% hedged to EUR. The IG part of the benchmark did slightly better than the HY part. The weakest credits in October were again Sri Lanka and Argentina. Sri Lanka's continued poor performance is due to the finance minister's repeated statements that Sri Lanka does not want IMF's help combined risk-off sentiment and a tourism sector hit by Covid-19.

Benchmark EM hard currency credit spreads tightened by 12bp to 421bp. The spread widening could not make up for the higher US rates and the yield to maturity of the benchmark rose by 5bp to 5.20%.



Bonds from Ivory Coast were some of the best performers in October, whereas bonds from Costa Rica had a rough month.



Asset Class Outlook

The latest spate of stricter or national lockdowns in France, Germany, and the United Kingdom due to the rise in Covid cases and deaths have led to a risk-off environment once more in global stocks and bonds. This spectre is likely to continue, with the need for greater fiscal stimulus from governments in developed as well as emerging markets.

Emerging markets have been a bit of a mixed bunch however. Normally we would have seen falling US Treasury bond yields in that environment. This was not the case however and the best quality EM names in the A to AA category were impacted by the increase in US Treasury bond yields whilst there was a clear dichotomy amongst the lowest quality sovereigns with a B or lower rating, which showed very diverse returns. However the sweet spot for emerging market sovereign bonds in October was most definitely in the BB rated sovereigns, with almost all countries in that group providing healthy returns, averaging around +2%.

Oil prices dropped another 11% in October, hitting levels not seen since May after being hit by concerns on both the demand and supply side. With Libya raising production to close to 1m barrels per day at a time when global oil demand has been tanking due to new Covid-19 restrictions being put in place is not helpful for emerging market oil exporters such as Russia, Ecuador, the Gulf states or African nations such as Angola or Nigeria.

The US presidential election set to take place on 3 November is upon us. Whilst opinion polls point to a win for Joe Biden, who currently holds a six-point lead over Trump in polls, it is too hard to call as results on election day in some big swing states could turn the tide red once more. We are certainly hoping for a blue sweep, ie wins for the Democrats in Congress and the Senate, with Biden as president in the White House. This, in our opinion, would help puncture the divisive politics that has been endemic to the Trump presidency both at home and abroad.

A clear Biden win would facilitate another fiscal splurge which would help the US and global economy. It would also pave the way for a pause in tariff and sanctions bashing. It will not end sanctions or tariffs but their use would be more predictable. Fewer and less noisy tariffs would encourage global trade and more open connections as trade policy returns to being more predictable. We expect Biden to remain tough on China but much less belligerent in his approach. All of this would in theory be positive for economic growth in emerging markets.

We maintain a neutral view on emerging market sovereign credit but with a tilt to valuing them as cheap. They are currently well above the level from the end of 2019 and historically cheap to their average credit rating.

The Ivory Coast held a presidential election on 31 October. Initial results point to a victory for the incumbent President Ouattara with still plenty of votes to be counted. However as two key opposition groups boycotted the election, Outtara seems set for a landslide win. The opposition questions the legitimacy of Ouattara's bid for a third term, deeming it unconstitutional. The risk of course is that the opposition protests turn violent. We remain overweight the Ivory Coast as despite the current unresolved questions about the legitimacy of the election, the country has made great strides in improving its overall governance under Outtara.

Costa Rica's bonds dropped by around 10% in October. The situation there reminds us of Ecuador's pre-debt restructuring. The government put forward plans to raise expenditures with taxes, only for the proposal to be rejected by opposing political parties, unions and various protest movements. The government backtracked and now we are left wondering how the government will fund itself next year. We do not hold any of these bonds in the funds and expect to keep our zero exposure.

Zambia's bonds fell significantly again in October after the country missed a USD 42m coupon payment on one of its Eurobonds on 14 October, thereby entering a 30-day grace period. This occurred after it failed to gather enough support to defer interest payments over the next six months. Therefore unless Zambia pays the coupon by 13 November, it will formally enter a sovereign credit default process. In that case we as bondholders will insist that before we entertain the idea of a debt restructuring we will need to see genuine fiscal consolidation measures, preferably through an IMF programme but also significant Chinese assistance and more transparency around debt creation.

Markets have quickly lost faith in Argentina's policymakers once more as US dollar bond yields there spiked to as high as 16%. We deem this as attractive however in the light of the very low external interest and principal debt payments that the country needs to make in the next three to four years. Despite the country's low FX reserves we think these will stabilise when the FX is brought more into alignment with a devaluation and when a new IMF agreement comes into place next year.

Sydinvest EM Bonds I EUR Acc h: Monthly performance attribution – October 2020

Performance

	Fund	Benchmark	Performance
Current month	-0.32%	-0.10%	-0.22%
Year to date	-1.89%	-1.91%	0.03%

Performance Attribution

Total	Country	Asset	Interaction	Cost	Residual
-0.22%	-0.23%	0.01%	0.03%	-0.05%	0.02%

Total	Investment	Cash	Cost
-0.22%	-0.18%	0.01%	-0.05%

Top & Bottom Attribution Contributors

		Average OW/UW	Country	Asset	Interac-tion	Total
Top 5 Contributors	Ivory Coast	2.42%	0.15%	0.00%	0.01%	0.17%
	Romania	3.63%	0.00%	0.05%	0.11%	0.15%
	Costa Rica	-0.80%	0.08%	0.00%	0.00%	0.08%
	El Salvador	-0.89%	0.06%	0.00%	0.00%	0.06%
	Egypt	0.99%	0.02%	0.03%	0.01%	0.06%
Bottom 5 Contributors	Sri Lanka	0.10%	-0.02%	0.00%	0.00%	-0.03%
	Bahrain	-2.54%	-0.03%	0.00%	0.00%	-0.03%
	Ukraine	2.14%	0.05%	-0.05%	-0.04%	-0.04%
	Kazakhstan	-2.65%	-0.05%	0.00%	0.00%	-0.05%
	Argentina	1.17%	-0.16%	0.00%	0.00%	-0.17%

Fund's historical performance

Year	Fund	Benchmark	Performance	Acc. perf.
2020 YTD	-1.89%	-1.91%	0.03%	65.67%
2019	11.64%	11.66%	-0.03%	66.84%
2018	-8.83%	-7.04%	-1.79%	59.94%
2017	9.17%	8.21%	0.96%	72.53%
2016	9.84%	8.32%	1.52%	63.62%
2015	-2.13%	0.74%	-2.87%	53.87%
2014	4.37%	7.09%	-2.73%	63.62%
2013	-5.26%	-5.58%	0.32%	68.08%
2012	19.54%	16.82%	2.72%	70.89%
2011	8.19%	7.39%	0.81%	53.67%
2010	14.79%	11.63%	3.16%	47.89%

Attribution from Top OW/UW

		Average OW/UW	Country	Asset	Interac-tion	Total
5 Largest Overweights	Qatar	3.91%	-0.01%	0.01%	0.01%	0.01%
	Romania	3.63%	0.00%	0.05%	0.11%	0.15%
	Indonesia	3.39%	0.00%	-0.01%	-0.01%	-0.01%
	Ivory Coast	2.42%	0.15%	0.00%	0.01%	0.17%
	Ukraine	2.14%	0.05%	-0.05%	-0.04%	-0.04%
5 Largest Underweights	Malaysia	-2.06%	0.01%	0.01%	-0.01%	0.01%
	Bahrain	-2.54%	-0.03%	0.00%	0.00%	-0.03%
	Kazakhstan	-2.65%	-0.05%	0.00%	0.00%	-0.05%
	Philippines	-3.22%	0.00%	0.00%	0.00%	0.00%
	China	-4.27%	0.01%	0.00%	0.00%	0.01%

Portfolio Summary – As at 30 October 2020

Ten largest over- and under weights in the portfolio

	Country	Weight, PF	Weight, BM	Over/underweight	Duration, PF	Duration, BM	Rel. Duration Cont.
10 Largest Overweights	Qatar	7.66%	3.69%	3.97%	9.25	10.92	0.31
	Indonesia	8.25%	4.74%	3.51%	8.49	9.05	0.27
	Romania	4.93%	1.58%	3.35%	10.68	8.72	0.39
	Ivory Coast	2.99%	0.48%	2.51%	6.48	6.21	0.16
	Ukraine	4.56%	2.38%	2.18%	2.35	4.76	-0.01
	Ghana	3.17%	1.37%	1.80%	5.80	6.26	0.10
	Uruguay	4.05%	2.51%	1.53%	13.37	12.34	0.23
	Mexico	6.17%	4.64%	1.53%	10.15	8.85	0.22
	Russia	4.94%	3.50%	1.44%	5.31	8.08	-0.02
	Seychelles	1.40%	0.00%	1.40%	1.97	-	0.03
10 Largest Underweights	Hungary	0.00%	1.19%	-1.19%	-	5.35	-0.06
	Poland	0.00%	1.35%	-1.35%	-	2.71	-0.04
	Peru	1.44%	2.86%	-1.42%	1.78	9.81	-0.26
	Panama	1.51%	3.00%	-1.49%	6.16	11.54	-0.25
	United Arab Emirates	2.08%	3.88%	-1.80%	14.48	9.48	-0.07
	Malaysia	0.68%	2.71%	-2.04%	2.14	9.39	-0.24
	Bahrain	0.00%	2.58%	-2.58%	-	5.49	-0.14
	Kazakhstan	0.00%	2.68%	-2.68%	-	9.18	-0.25
	Philippines	0.00%	3.23%	-3.23%	-	8.88	-0.29
	China	0.00%	4.33%	-4.33%	-	5.89	-0.25

Rating distribution

S&P	
AAA	0.00%
AA	4.94%
A	7.37%
BBB	36.86%
BB	18.07%
B	25.85%
CCC and below	5.12%
Not rated	0.98%
Default	0.80%

Concentration risk

Country	Weight
Indonesia	8.25%
Qatar	7.66%
Mexico	6.17%
Russia	4.94%
Romania	4.93%
Ukraine	4.56%
Turkey	4.44%
Uruguay	4.05%
South Africa	3.64%
Colombia	3.62%

Duration distribution

Dur. Years	Weight	Avg. Dur.
0-2	10.66%	1.03
2-5	18.28%	3.52
5-10	48.05%	6.83
10-15	12.81%	11.94
15+	10.19%	17.07
Total	100.00%	7.31