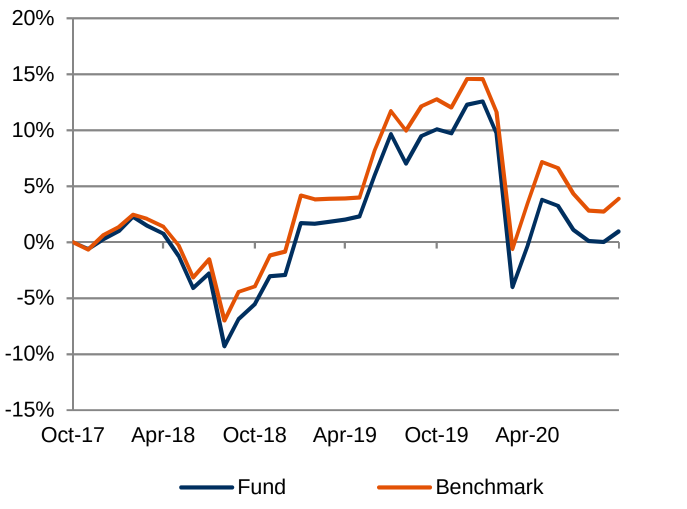
Sydinvest EM Local Currency Bonds I EUR Acc

Monthly Report - October 2020
5 November 2020

3 yrs. rolling return: Fund vs. JPMorgan GBI-EM GD (EUR unhed.), %



Fund Profile & Objective

The fund aims to deliver long-term excess return to the JP Morgan GBI-EM 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 rates within countries and between issuers as well as local EM FX.

Fund performance summary

Sydinvest Emerging Markets Local Currency Bonds generated a return of 0.95% in October, which was 16bp lower than the return of its benchmark.

In October the overweight in China as well as the underweights in Brazil, the Czech Republic, Colombia and Hungary added to performance. Conversely the FX overweights in Turkey and Poland, the underweight in South Africa as well as the FX underweight in Chile detracted from performance.

Portfolio strategy and changes

The fund is nearly neutral duration vs benchmark. Duration overweights and underweights still vary from country to country on the basis of the inflation outlook and pricing. The fund's asset allocation reflects the fact that in general the inflation outlook is mostly benign. The benchmark has 19 countries while the fund has 21 as the fund is not invested in the Philippines but has off-benchmark positions in Egypt, Ukraine and Serbia.

In October we made several trades between sovereign bonds and supranationals. In Turkey we sold supras and bought Turkgbs and in Mexico we did the opposite. We added in China and reduced in Peru and Indonesia.

Returns net of fees, end of month

	Mth	YtD	-3 Mth	-6 Mth	-1 Yr
Fund	0.94%	-10.08%	-0.13%	1.31%	-8.27%
Benchmark	1.10%	-9.34%	-0.44%	0.40%	-7.88%
Performance	-0.16%	-0.74%	0.30%	0.91%	-0.40%

Key Figures

Ratios, end of month	October	Change	September
Fund Yield to maturity	5.23%	-0.05%	5.28%
Benchmark Yield to maturity	4.60%	0.01%	4.59%
Fund Duration	5.26	-0.12	5.39
Benchmark Duration	5.34	-0.03	5.37
No. of countries	21	0	21
No. of issues	51	0	51
Gov. bonds, %	95.75%	-0.65%	96.40%
Quasi Sov., %	1.98%	-0.01%	1.99%
Cash, %	2.33%	0.59%	1.73%
Total AUM, mn EUR	46.90	0.73	46.17
NAV	1,750.33	16.23	1,734.09
Avg. rating S&P	BBB		BBB
Beta, 3Yr.	1.04	0.00	1.04
Track. Error, 3 yr	1.58%	0.00%	1.58%
Sharpe Ratio, 3 yr	0.08	0.07	0.01
Info. Ratio, 3 yr	-0.60	-0.05	-0.56
Jensen Alpha, 3 yr	-1.03%	-0.11%	-0.92%
Volatility, 3 yr	10.88%	-0.02%	10.89%

Key Fund Information

Name of SICAV/FCP Fund	"Sydinvest HojrenteLande Lokal Valuta Akk"
Share class	" I EUR Acc" (Institutional / EUR)
Benchmark/Style	JP Morgan GBI-EM Global Diversified unhedged to EUR
Security Guidelines	Sovereign & quasi sovereign only
Duration Limits	Benchmark +/- 3 years
FX Exposure and Hedging	Emerging Market Local Currency Unhedged to EUR
Issuer limit/Unlisted Bond	10% /Maximum 10%
Financial Derivative Instruments Allowed	Domestic Currency Bonds. FX Forwards, NDFs, Deposits, Credit-Linked Notes.
Return Profile	Accumulation, no dividends.
ISIN CODE	DK0060646636
Country of domicile	Denmark
Bloomberg ticker / Reuters	NA
Initiation date	30.11.2005
Dealing day/NAV date	Daily
UCITS	UCITS IV
Total Expense Ratio	0.64% 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)

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Sydinvest

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Local Currency Markets – 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 positive benchmark return was not that bad. The prospect of Biden winning the election certainly boosted emerging market currencies in October as emerging market bonds denominated in local currencies outperformed traditional asset classes. Local rates fell in most regions except for Latin America. Overall local benchmark bonds saw a small 2bp drop in the yield to maturity to 4.46%. This resulted in a benchmark bond return before exchange rate fluctuations of 0.35%. Rates rose the most in Turkey and Brazil whereas they fell the most in Indonesia and the Dominican Republic. EM currencies strengthened by 0.75% against EUR and 0.08% against USD. The Turkish lira was by far the weakest currency whereas the Mexican peso followed by the South African rand were the strongest currencies. The total local benchmark return in EUR was 1.10% in October.

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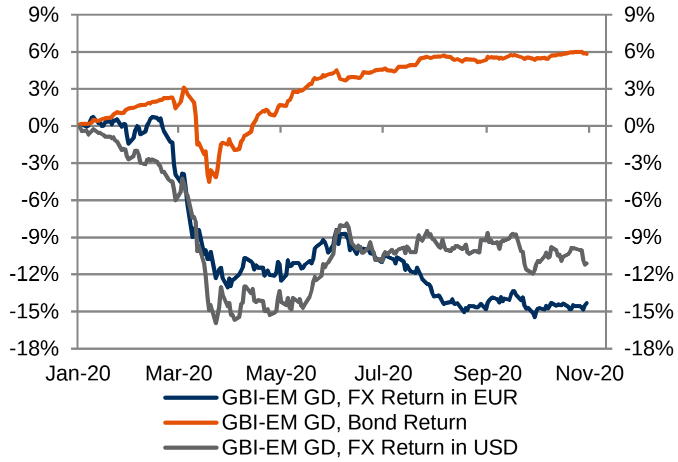
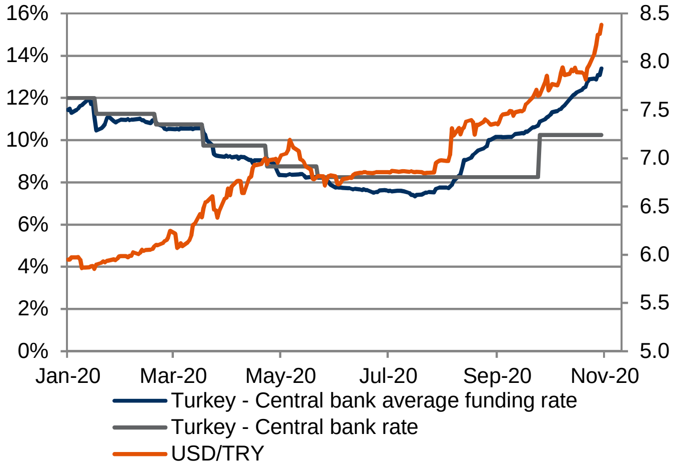


Turkey's central bank disappointed again by choosing not to explicitly raise its main policy interest rate but instead to raise interest rates via the effective cost of funding rates available to domestic banks.



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.

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 like Russia and Colombia. The majority of the countries where we have exposure to Emerging markets local currency bonds are however oil importers and this development is in fact positive. With China's increased weight in the fund, this is even more relevant than it was previously.

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.

China continued its steady march upward towards its final goal of a 10% weight in the local currency benchmark which we and most other emerging market bond investors use. With it, the demand for its bonds and currency continues. We maintain our overweight exposure during this process of likely foreign investor demand due to benchmark driven flows which we have discussed previously.

The Mexico peso was among the top performing currencies in October, soaring by almost 4.5% versus the US dollar. We believe this can be attributed to the improved prospects in the polls of a Biden victory or more aptly put a Trump defeat in the presidential election on 3 November. Trump has been decidedly anti-Mexico since day one of his presidency and any change to that would support the growth and confidence prospects for the Mexican economy.

The South African rand rose by over 3% versus the US dollar in October, which means that the currency has provided positive returns every month in the last six. Surprising indeed given the sorry state of its economy and meagre fiscal consolidation plans. The silver lining comes from the fact that the market had beaten it up so badly prior to this recent rise that the extent of credit downgrades and upward debt revisions had probably already been so heavily discounted that some relief was perhaps inevitable. That seems to be the route the market has taken recently after the government presented its latest budget projections. Whilst dire, they were no worse than expected and the first signs of public sector wage freezes seems to be providing some solace to investors.

Turkey's central bank disappointed again by choosing not to explicitly raise its main policy interest rate but instead to raise interest rates via the effective cost of funding rates available to domestic banks. The signal value of this step is not to be underestimated as it points to continued resistance to simplicity, orthodoxy and transparency. The lira remained under pressure and the inflation pass-through from currency weakness is yet to be felt. The one thing the Turkish lira and Turkish government bonds have going for them is their valuation – the lira is hugely undervalued but it is hard to be too bullish in the absence of a strong policy anchor.

Ukraine's Constitutional Court ruled against the adoption of previously passed legislation tackling corruption by politicians. This key piece of legislation puts in doubt the current IMF programme upon which Ukraine is reliant for financing. The IMF funds are thus likely to be further delayed and this had a negative impact on the currency and bonds in October. The president of Ukraine has promised to step in to find a solution with the IMF, including potentially dissolving the Constitutional Court, which would appear to be under the influence of the oligarchs.

Sydinvest EM Local Currency Bonds: Monthly performance attribution – October 2020

Performance

	Fund	Benchmark	Performance
Current month	0.94%	1.10%	-0.16%
Year to date	-10.08%	-9.34%	-0.74%

Performance Attribution

Total	Country	Asset	Interaction	FX Spot	Cost	Residual
-0.16%	0.01%	0.08%	-0.04%	-0.09%	-0.05%	-0.08%

Total	Investment	Cash	Cost
-0.16%	-0.09%	-0.02%	-0.05%

Top & Bottom Attribution Contributors

		Average OW/UW	Country	Asset	Interac-tion	FX Spot	Total
Top 5 Contributors	China	0.90%	0.00%	0.01%	0.00%	0.03%	0.05%
	Brazil	-0.33%	0.00%	0.03%	0.00%	0.00%	0.03%
	Czech Republic	-0.83%	0.01%	0.01%	0.00%	0.01%	0.03%
	Colombia	-1.15%	0.01%	0.02%	0.00%	0.00%	0.02%
	Hungary	-1.31%	0.00%	0.01%	0.00%	0.02%	0.02%
Bottom 5 Contributors	Russia	0.35%	0.00%	-0.01%	0.00%	-0.01%	-0.02%
	Poland	1.08%	0.00%	-0.01%	0.00%	-0.03%	-0.03%
	Chile	-2.13%	0.00%	0.01%	0.00%	-0.04%	-0.04%
	South Africa	-0.69%	-0.01%	-0.02%	0.00%	-0.02%	-0.04%
	Turkey	0.63%	-0.01%	0.01%	0.01%	-0.05%	-0.05%

Fund's historical performance

Year	Fund	Benchmark	Performance	Acc. perf.
2020 YTD	-10.08%	-9.34%	-0.74%	-11.64%
2019	15.65%	15.56%	0.09%	-11.26%
2018	-3.18%	-1.48%	-1.70%	-9.87%
2017	0.31%	1.20%	-0.89%	-7.03%
2016	13.95%	13.23%	0.73%	-5.42%
2015	-6.38%	-5.23%	-1.16%	-5.76%
2014	7.24%	7.37%	-0.12%	-4.10%
2013	-14.69%	-12.91%	-1.79%	-3.64%
2012	14.04%	14.96%	-0.93%	-0.54%
2011	0.58%	1.53%	-0.95%	0.78%

Attribution from Top OW/UW

		Average OW/UW	Country	Asset	Interac-tion	FX Spot	Total
5 Largest Overweights	Egypt	2.07%	0.01%	0.00%	0.00%	0.01%	0.01%
	Ukraine	1.44%	0.00%	0.00%	0.00%	-0.01%	-0.01%
	Peru	1.36%	0.01%	-0.01%	0.00%	-0.01%	-0.01%
	Indonesia	1.29%	0.02%	-0.02%	0.00%	0.01%	0.01%
	Poland	1.08%	0.00%	-0.01%	0.00%	-0.03%	-0.03%
5 Largest Underweights	Hungary	-1.31%	0.00%	0.01%	0.00%	0.02%	0.02%
	Romania	-1.60%	-0.01%	0.04%	-0.02%	0.01%	0.01%
	Thailand	-2.04%	0.00%	0.01%	0.00%	-0.02%	-0.01%
	Chile	-2.13%	0.00%	0.01%	0.00%	-0.04%	-0.04%
	Malaysia	-4.19%	-0.01%	0.01%	-0.01%	0.00%	0.00%

Portfolio Summary – As at 30 October 2020

Ten largest over- and under weights in the portfolio

Country	Bond Weight	FX Weight	O/U FX Weight
Egypt	2.09%	2.09%	2.09%
Ukraine	1.47%	1.47%	1.47%
Peru	4.32%	4.32%	1.32%
Poland	9.39%	9.39%	1.17%
Mexico	10.74%	10.75%	1.12%
Serbia	0.99%	0.99%	0.99%
Dominican Rep.	1.13%	1.13%	0.97%
Indonesia	10.39%	10.39%	0.82%
Turkey	2.59%	2.60%	0.66%
Russia	8.41%	8.43%	0.35%
Brazil	8.62%	8.62%	0.12%
Philippines	0.00%	0.00%	-0.18%
Czech Republic	3.39%	3.40%	-0.62%
South Africa	6.69%	6.70%	-0.63%
Colombia	4.47%	4.47%	-0.96%
Hungary	2.50%	2.55%	-1.28%
Romania	1.30%	1.36%	-1.80%
Chile	0.61%	0.61%	-2.09%
Thailand	6.71%	6.71%	-2.19%
Malaysia	3.23%	3.23%	-4.02%

Country	Duration, PF	Duration, BM	Rel. Duration Cont.
Peru	8.33	7.61	0.13
Mexico	5.77	5.15	0.12
Russia	5.66	4.88	0.08
Dominican Rep.	6.16	3.35	0.06
Brazil	3.50	2.86	0.06
Indonesia	5.76	5.79	0.04
Serbia	4.48	0.00	0.04
China	5.37	5.23	0.03
Ukraine	1.39	0.00	0.02
Uruguay	5.93	3.30	0.02
Poland	3.84	4.42	0.00
Turkey	1.87	2.69	0.00
Romania	8.84	3.92	-0.01
Philippines	0.00	7.79	-0.01
Hungary	7.16	5.14	-0.02
Colombia	5.39	5.34	-0.05
Czech Republic	5.86	6.36	-0.06
Chile	7.96	7.63	-0.16
Malaysia	5.99	5.27	-0.19
Thailand	6.29	7.35	-0.23

Rating distribution

S&P	
AAA	3.72%
AA	3.35%
A	17.48%
BBB	47.19%
BB	21.13%
B	7.13%
CCC and below	0.00%
Not rated	0.00%
Default	0.00%

Concentration risk

Country	Bond Exp.	Ccy Exp.
Mexico	10.74%	10.75%
Indonesia	10.39%	10.39%
Poland	9.39%	9.39%
Brazil	8.62%	8.62%
Russia	8.41%	8.43%
China	8.27%	8.27%
Thailand	6.71%	6.71%
South Africa	6.69%	6.70%
Colombia	4.47%	4.47%
Peru	4.32%	4.32%

Duration distribution

Dur. Years	Weight	Avg. Dur.
0-1	6.68%	0.51
1-3	12.12%	2.22
3-5	24.02%	4.33
5-7	30.43%	5.77
7-10	24.57%	7.85
10+	2.17%	10.83
Total	100.00%	5.26