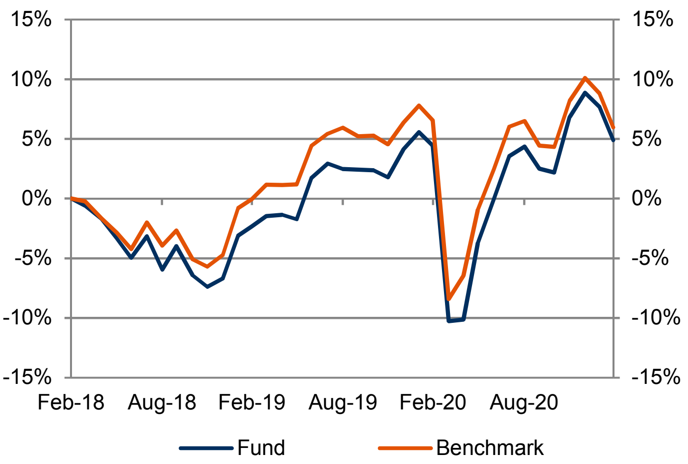
Sydinvest Emerging Markets Bonds I EUR Acc h

Monthly Report - February 2021
4 March 2021

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	-2,58%	-3,64%	-1,80%	0,53%	0,44%
Benchmark	-2,62%	-3,75%	-2,06%	-0,50%	-0,55%
Performance	0,03%	0,11%	0,27%	1,03%	0,99%

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 performance summary

Sydinvest Emerging Markets Bonds generated a return of minus 2.58% in February, which was 3bp better than the return of its benchmark.

Performance was affected positively by the underweights and asset allocations in Peru, Panama and Chile, the asset allocations in Russia as well as the overweight in Ghana. Conversely the zero weights in China and Bahrain, the overweights in Laos and Uruguay as well as the asset allocation in Saudi Arabia detracted from performance.

Portfolio strategy and changes

The fund is underweight in spread duration and slightly underweight Treasury duration, close to where we started 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 February we reduced in Paraguay and added in Colombia instead. We reduced in Qatar and added in Saudi Arabia instead. We added in Serbia through a new issue in EUR. We also added in a quasi sovereign from Peru.

Key Figures

Ratios, end of month	February	Change	January
Fund Yield to maturity *	5,02%	0,41%	4,61%
Benchmark Yield to maturity *	4,45%	0,39%	4,07%
Fund Duration	7,64	-0,02	7,66
Spread Duration	7,12	0,00	7,12
Benchmark Duration	7,73	-0,30	8,04
No. of countries	43	1	42
No. of issues	134	1	133
Gov. bonds, %	84,60%	1,27%	83,33%
Quasi Sov., %	13,90%	0,81%	13,09%
Cash, %	1,47%	-1,92%	3,40%
Total Fund AUM, mn EUR	189,87	-10,71	200,58
NAV	2.684,27	-71,20	2.755,48
Avg. rating S&P	BB		BB
Beta, 3Yr.	1,03	0,00	1,03
Track. Error, 3 yr	1,92%	0,00%	1,92%
Sharpe Ratio, 3 yr	0,18	-0,01	0,19
Info. Ratio, 3 yr	-0,18	0,00	-0,18
Jensen Alpha, 3 yr	-0,42%	0,01%	-0,43%
Volatility, 3 yr	11,44%	0,03%	11,42%

*) 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)

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Hard Currency Emerging Market bond market – February

The big story in February was the relentless rise of UST rates. This put pressure on EM bonds. A nearly 20% rise in the price of oil could not alleviate the pressure. EM hard currency bonds credit spreads at benchmark level widened by 6bp to 352bp. The spread widening happened in the IG part of the benchmark. The yield to maturity of the benchmark rose by 38bp to 4.72%. The result was a monthly benchmark return of minus 2.61% hedged to EUR. The spread widening and higher UST rates hit the IG part of the benchmark hard.
Lebanon and Zambia were the best performers in February despite being in default. Latin American credits were the hardest hit in February especially if the country started with the letter P, as in Peru, Panama and Paraguay.

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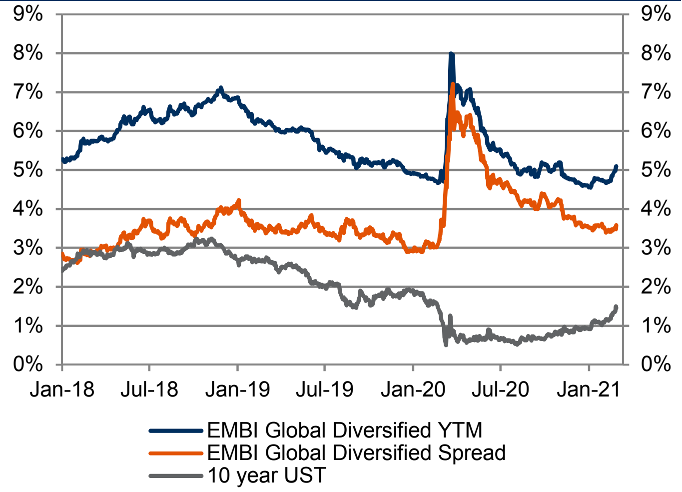

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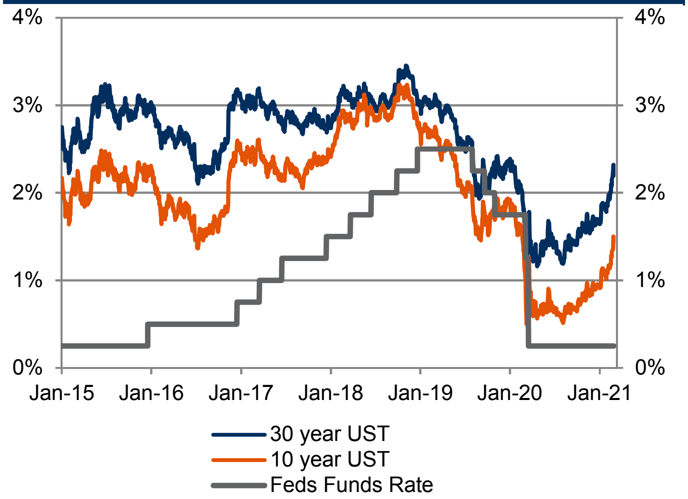

Asset Class Outlook

We are starting to get a taste of some of the differences in approach that Joe Biden will pursue in comparison to his predecessor. Two of the more significant policy actions relating to emerging markets come in the rebirth of the idea to use Special Drawing Rights (SDR) to increase the resources of the IMF and in USA's attitude towards Saudi Arabia.

We had expected President Biden to take a dimmer view of Crown Prince Mohammed bin Salman's alleged involvement in the killing of Washington Post journalist Jamal Khashoggi in 2018 in Turkey. The US president released a report, previously withheld by Trump, which highlights the CIA's assessment that Saudi Arabia's Crown Prince approved the operation to capture or kill Khashoggi. The US is looking to recalibrate the relationship with Saudi Arabia but how far that policy shift goes is up for debate. We expect it to fall short of a complete rewriting of the relationship. Whilst the US identified 76 Saudi individuals who may be subject to sanctions, no sanctions are to be placed on the Crown Prince himself.

Another area where President Biden has differed from Trump is his interest in boosting the size of the International Monetary Fund's balance sheet. Because of that, we now expect the IMF to support a new allocation of SDR, which can be converted into globally exchangeable currencies and at the same time boost the international reserves of its members. Two sizeable increases in SDRs occurred in 2009 after the financial crisis of 2008 and likewise we expect another even bigger increase in response to the coronavirus pandemic. This will help low-income and middle-income emerging market countries suffering from the effects of the 2020 global economic shutdown and would support bond prices. We expect at least a USD 500 billion increase in SDRs.

The spike in US government bond yields in February has set off chatter about the potential longevity and magnitude of further increases. Will this be another repeat of the Taper Tantrum in 2013 when increases in US government bond yields, in response to the Federal Reserve reducing its purchases of US government bonds, spooked the markets? The contagion to emerging markets was swift and severe. Is this the start of a global inflationary trend and are we to expect a new policy coordination around globally higher interest rates to finally end the zero/negative interest rates that we have become so accustomed to. How would emerging markets fare in such a scenario?

We think it is sensible that US real yields return to more normal levels over time but for that to be sustained in our view requires the outlook for inflation and growth to be much more robust and structural. We expect very strong US real GDP growth in 2021 as the huge fiscal stimulus kicks in and vaccination programmes take root globally. We also expect higher inflation on the back of that and due to base effects in the coming months. However the 2021 economic recovery is in response to the 2020 slowdown. We do not think that the structural outlook for growth or inflation has changed much and we see these phenomena as cyclical. Where we clearly are concerned is the US and advanced economy fiscal stance but so far central banks have been able to control this by becoming a buyer of last resort, and we do not expect them to step away from the steering wheel anytime soon in a meaningful way.

The improved economic growth outlook has pushed commodity prices higher, in particular copper, soya and oil. This is clearly beneficial for emerging market countries' current accounts and currency outlooks, which will stand emerging markets in good stead to weather potentially higher global interest rates. We currently maintain a neutral view on emerging market sovereign hard currency bonds.

US interest rate increases are now being priced in the market to start in 2022, which is a year earlier than when the Federal Reserve has indicated that it expects to begin to normalise its conventional monetary policy stance. This will clearly have an impact on how emerging market central banks set monetary policy and we feel that on the margin this will cause them to act with more caution in reducing interest rates.

Ecuador held presidential elections on 7 February. The good news is that the market friendly candidate Lasso made it to the second round. The bad news is that he was so far behind the winner of the first round, Arauz, that it will be difficult to make up this gap in the final vote on 11 April. In our view Ecuador risks turning more to the left, which is not positive for bond prices. However ratings agency Moody's was able to draw some positives since it raised Ecuador's Caa3 rating outlook from negative to stable. It took comfort from the fact that neither of the presidential candidates have explicitly mentioned any intention to restructure market debt. Ecuador is clearly supported by the very favourable near-term repayment structure but we are cautious of this potentially populist tilt.

Sydinvest EM Bonds I EUR Acc h: Monthly performance attribution – February 2021

Performance

	Fund	Benchmark	Performance
Current month	-2,58%	-2,62%	0,03%
Year to date	-3,64%	-3,75%	0,11%

Performance Attribution

Total	Country	Asset	Interaction	Cost	Residual
0,03%	-0,44%	0,53%	0,06%	-0,04%	-0,08%

Total	Investment	Cash	Cost
0,03%	0,03%	0,04%	-0,04%

Top & Bottom Attribution Contributors

		Average OW/UW	Country	Asset	Interac-tion	Total
Top 5 Contributors	Peru	-0,65%	0,03%	0,16%	-0,04%	0,15%
	Russia	2,63%	-0,01%	0,07%	0,06%	0,13%
	Panama	-1,36%	0,05%	0,09%	-0,04%	0,09%
	Chile	-2,30%	0,04%	0,10%	-0,08%	0,06%
	Ghana	2,45%	0,02%	0,01%	0,02%	0,05%
Bottom 5 Contributors	Saudi Arabia	0,09%	0,00%	-0,05%	0,00%	-0,05%
	Bahrain	-2,64%	-0,05%	0,00%	0,00%	-0,05%
	Uruguay	1,43%	-0,05%	-0,01%	-0,01%	-0,06%
	Laos	0,89%	-0,07%	0,00%	0,00%	-0,07%
	China	-4,28%	-0,08%	0,00%	0,00%	-0,08%

Fund's historical performance

Year	Fund	Benchmark	Performance	Acc. perf.
2021 YTD	-3,64%	-3,75%	0,11%	71,25%
2020	4,52%	3,50%	1,02%	73,52%
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%

Attribution from Top OW/UW

		Average OW/UW	Country	Asset	Interac-tion	Total
5 Largest Overweights	Indonesia	3,35%	-0,04%	0,05%	0,04%	0,04%
	Ivory Coast	3,02%	0,04%	0,00%	-0,01%	0,03%
	Ukraine	2,79%	0,00%	0,02%	0,02%	0,05%
	Russia	2,63%	-0,01%	0,07%	0,06%	0,13%
	Ghana	2,45%	0,02%	0,01%	0,02%	0,05%
5 Largest Underweights	Kazakhstan	-2,58%	0,03%	0,00%	0,00%	0,03%
	Bahrain	-2,64%	-0,05%	0,00%	0,00%	-0,05%
	United Arab Emirates	-2,98%	0,01%	-0,16%	0,12%	-0,03%
	Philippines	-3,09%	0,04%	0,00%	0,00%	0,04%
	China	-4,28%	-0,08%	0,00%	0,00%	-0,08%

Portfolio Summary – As at 26 February 2021

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	Indonesia	8,02%	4,56%	3,46%	8,17	8,84	0,25
	Ivory Coast	3,33%	0,40%	2,94%	8,22	6,40	0,25
	Ukraine	5,39%	2,46%	2,93%	2,68	4,90	0,02
	Russia	6,10%	3,41%	2,69%	6,03	7,62	0,11
	Ghana	4,01%	1,45%	2,55%	5,60	6,36	0,13
	Romania	3,86%	1,47%	2,39%	12,03	8,32	0,34
	Turkey	5,53%	3,62%	1,91%	4,58	5,67	0,05
	South Africa	4,14%	2,56%	1,58%	4,97	6,81	0,03
	Mexico	6,29%	4,81%	1,48%	10,01	9,19	0,19
	Uruguay	3,76%	2,30%	1,46%	12,84	11,72	0,21
10 Largest Underweights	Brazil	1,88%	3,02%	-1,13%	2,91	7,39	-0,17
	Poland	0,00%	1,30%	-1,30%	-	2,39	-0,03
	Panama	1,54%	2,84%	-1,30%	5,83	11,07	-0,22
	Malaysia	0,71%	2,67%	-1,96%	1,83	8,83	-0,22
	Chile	0,56%	2,82%	-2,26%	6,24	11,56	-0,29
	Kazakhstan	0,00%	2,54%	-2,54%	-	8,67	-0,22
	Bahrain	0,00%	2,68%	-2,68%	-	5,55	-0,15
	United Arab Emirates	0,83%	3,82%	-2,99%	17,00	8,95	-0,20
	Philippines	0,00%	3,07%	-3,07%	-	8,85	-0,27
	China	0,00%	4,35%	-4,35%	-	5,88	-0,26

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	8,02%
Mexico	6,29%
Russia	6,10%
Turkey	5,53%
Ukraine	5,39%
Qatar	4,62%
South Africa	4,14%
Saudi Arabia	4,09%
Egypt	4,02%
Ghana	4,01%

Duration distribution

Dur. Years	Weight	Avg. Dur.
0-2	10,54%	0,99
2-5	22,34%	3,74
5-10	40,23%	6,57
10-15	17,30%	11,47
15+	9,60%	16,17
Total	100,00%	7,12