

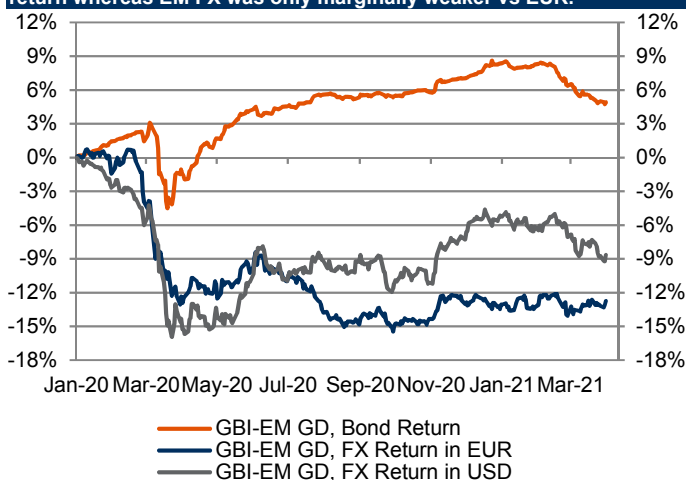
# Sydinvest EM Local Currency Bonds I EUR Acc

## Quarterly Attribution Report - Q1 2021 9 April 2021

### Main Points

- In Q1 EM local bond markets were under pressure from rising UST rates.
- Emerging market bonds issued in local currency returned minus 2.85% unhedged to EUR at benchmark level.
- Rising local bond yields drove the negative return whereas EM FX was only marginally weaker vs EUR.
- The fund returned minus 2.80%, which was 4bp above its benchmark.
- Q2 will be a tug of war between a global growth rebound and risk appetite on the one hand but rising core rates on the other.

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EM local bonds were under pressure in Q1 as a brighter global growth outlook as well as rising UST rates put pressure on global bond markets. Local currency EM bond rates increased by 78bp to 4.99%.



### Performance Review: Portfolio return

The fund returned minus 2.80% in Q1, which was 4bp better than its benchmark. Country selection and FX selection added to performance whereas asset selection was roughly flat. At country level the overweights in frontier countries Egypt, Ukraine and Ghana, the underweight in Colombia as well as the overweight and asset selection in China added to performance. Conversely the overweight and asset selection in Peru, the asset selection in Indonesia and Chile, the overweight in Turkey as well as the underweight and asset selection in Malaysia detracted from performance.

For further portfolio information please see page 2.

### Asset Class Review: EM local currency markets

Emerging market local bonds were under pressure in Q1 as a brighter global growth outlook as well as rising UST rates put pressure on global fixed income markets. Local currency EM bond rates increased by 78bp to 4.99%. Rates increased in all but two countries with Turkey and Brazil seeing the biggest increases. The benchmark bond return was minus 3.19% before currency fluctuations. EM FX was marginally stronger versus EUR but versus USD EM FX weakened significantly as USD was strong in Q1. The Dominican Republic, China and South Africa were the outperformers whereas Turkey and Brazil underperformed, matching developments in local bond markets. The total local benchmark return was minus 2.85% unhedged to EUR in Q1.

### Portfolio Strategy & Changes

The fund is slightly underweight duration vs its 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 20 as the fund is not invested in the Philippines and the Dominican Republic but has off-benchmark positions in Egypt, Ghana, Ukraine and Serbia.

At the end of Q1 the largest FX overweights are Egypt, Mexico and Ukraine whereas the largest underweights are Malaysia, Thailand and Romania. As regards duration the fund is overall slightly underweight compared to its benchmark. The largest overweights are Mexico, Peru and Russia whereas the largest underweights are Thailand, Malaysia and the Czech Republic. During Q1 the fund added exposure in Ghana. In Turkey the fund initially added risk but later reduced again following the sacking of the central bank governor. The fund reduced exposure in Russia and Thailand. The fund made several switches on the curves in Turkey, Mexico, Brazil, Russia and Indonesia.

### Outlook

Covid-19 has not yet lessened its grip on the global economy but vaccination programmes are well underway in several places and bring hope of more open economies despite mutations. President Biden's huge stimulus package has boosted US economic growth and inflation expectations, which has also prompted rises in US interest rates. This has put EM bonds under pressure as well.

The big relief package is spilling over into global growth and the OECD, among others, has revised its growth outlook upwards as regards most countries, including many EM countries. In many respects Europe is the largest underperformer in terms of growth, which is due to lockdowns and a slow rollout of vaccines as well as somewhat smaller relief packages.

In Brazil and Mexico the number of persons infected with Covid-19 remains extremely high, which is putting tremendous pressure on the two countries. In both cases many of the problems stem from the countries' populist presidents. By the same token the economic consequences will likely also be somewhat more severe here than in most other EM countries.

Inflation has started to emerge in several EM countries. Some of it is attributable to "base effects", ie declines in prices last year that are now no longer included in the annual rate of increase. But this is not the whole explanation. Most commodity prices have gone up and this is starting to show in consumer prices. Furthermore bottlenecks related to Covid-19 have caused prices to rise despite weak economies. Hopefully the recovery will come on top of this, which will mean that there will be a risk of more inflation for a while.

In some countries inflation has reached a level where EM central banks have started to take steps and this is earlier than we anticipated at the beginning of the year. In Brazil the central bank has lifted its main policy rate on the back of a sharp rise in inflation and we project rate hikes at most meetings during the remainder of the year. Russia's central bank has also started to raise its interest rate albeit at a slower pace. Local rates have gone up in almost all benchmark countries. This is the result of higher US interest rates combined with the trend in inflation mentioned above.

Some EM currencies are benefiting from higher key interest rates at a time when US interest rates are on the rise. However not all EM central banks will raise interest rates this year and as always there are considerable differences from country to country.

# Sydivest EM Local Currency Bonds: Quarterly performance attribution – Q1 2021

## Performance

	Fund	Benchmark	Performance
Current quarter	-2.80%	-2.85%	0.04%
Year to date	-2.80%	-2.85%	0.04%

## Performance Attribution

Total	Country	Asset	Interaction	FX Spot	Cost	Residual
0.04%	0.22%	-0.14%	0.13%	0.18%	-0.14%	-0.21%

Total	Investment	Cash	Cost
0.04%	0.11%	0.08%	-0.14%

## Fund's historical performance

Year	Fund	Benchmark	Performance	Acc. perf.
2021 YTD	-2.80%	-2.85%	0.04%	-11.27%
2020	-6.34%	-5.79%	-0.55%	-11.68%
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%

## Top & Bottom Attribution Contributors

	Average OW/UW	Country	Asset	Interaction	FX Spot	Total	
Top 5 Contributors	Egypt	2.03%	0.12%	0.00%	0.00%	0.07%	0.19%
	Ukraine	1.38%	0.09%	0.00%	0.00%	0.07%	0.16%
	Ghana	0.85%	0.08%	0.00%	0.00%	0.05%	0.12%
	China	0.99%	0.04%	0.06%	0.00%	0.02%	0.12%
	Colombia	-1.32%	0.03%	0.02%	0.00%	0.04%	0.09%
Bottom 5 Contributors	Malaysia	-3.88%	-0.03%	-0.03%	0.02%	-0.02%	-0.07%
	Turkey	1.16%	-0.11%	0.02%	0.02%	0.00%	-0.07%
	Chile	-1.42%	0.02%	-0.14%	0.08%	-0.03%	-0.07%
	Indonesia	0.93%	0.01%	-0.10%	-0.01%	0.00%	-0.11%
	Peru	1.12%	-0.05%	-0.05%	-0.02%	-0.01%	-0.13%

## Attribution from Top OW/UW

	Average OW/UW	Country	Asset	Interaction	FX Spot	Total	
5 Largest Overweights	Egypt	2.03%	0.12%	0.00%	0.00%	0.07%	0.19%
	Mexico	1.70%	-0.04%	0.01%	0.00%	0.01%	-0.02%
	Ukraine	1.38%	0.09%	0.00%	0.00%	0.07%	0.16%
	Turkey	1.16%	-0.11%	0.02%	0.02%	0.00%	-0.07%
	Peru	1.12%	-0.05%	-0.05%	-0.02%	-0.01%	-0.13%
5 Largest Underweights	Chile	-1.42%	0.02%	-0.14%	0.08%	-0.03%	-0.07%
	Hungary	-1.47%	-0.02%	-0.02%	0.01%	0.00%	-0.03%
	Romania	-1.92%	-0.08%	-0.04%	0.02%	0.03%	-0.07%
	Thailand	-3.53%	0.05%	0.02%	0.00%	0.01%	0.07%
	Malaysia	-3.88%	-0.03%	-0.03%	0.02%	-0.02%	-0.07%

## Portfolio Summary – As at 31 March 2021

### Ten largest over- and under weights in the portfolio

Country	Bond Weight	FX Weight	O/U FX Weight
Egypt	2.35%	2.35%	2.35%
Mexico	11.47%	11.48%	2.05%
Ukraine	1.61%	1.61%	1.61%
China	11.41%	11.41%	1.41%
Peru	3.86%	3.86%	1.41%
Ghana	1.11%	1.11%	1.11%
Serbia	0.96%	0.96%	0.96%
Indonesia	10.46%	10.46%	0.81%
Russia	7.90%	7.90%	0.64%
Dominican Rep.	0.00%	0.00%	-0.15%
Philippines	0.00%	0.00%	-0.15%
South Africa	7.52%	7.52%	-0.19%
Czech Republic	3.13%	3.15%	-0.98%
Colombia	3.87%	3.87%	-1.06%
Chile	1.17%	1.17%	-1.34%
Hungary	2.53%	2.53%	-1.48%
Romania	1.29%	1.30%	-1.89%
Thailand	4.88%	4.88%	-3.91%
Malaysia	3.28%	3.28%	-4.11%

Country	Duration, PF	Duration, BM	Rel. Duration Cont.
Mexico	5.33	5.06	0.13
Peru	8.02	7.28	0.13
Russia	5.90	4.76	0.12
South Africa	7.19	6.35	0.05
Serbia	4.27	0.00	0.04
China	5.19	5.62	0.03
Ghana	2.44	0.00	0.03
Brazil	3.11	2.80	0.02
Uruguay	5.93	3.02	0.02
Ukraine	1.10	0.00	0.02
Romania	8.47	3.63	-0.01
Philippines	0.00	7.31	-0.01
Hungary	6.75	5.16	-0.04
Poland	3.51	4.17	-0.04
Indonesia	4.79	5.70	-0.05
Colombia	5.00	5.02	-0.05
Chile	10.07	7.02	-0.06
Czech Republic	5.28	6.33	-0.10
Malaysia	5.30	5.73	-0.25
Thailand	5.95	7.03	-0.33

### Rating distribution

Composite Rating	
AAA	1.62%
AA	3.13%
A	30.27%
BBB	41.21%
BB	16.67%
B	7.10%
CCC and below	0.00%
Not rated	0.00%
Default	0.44%

### Concentration risk

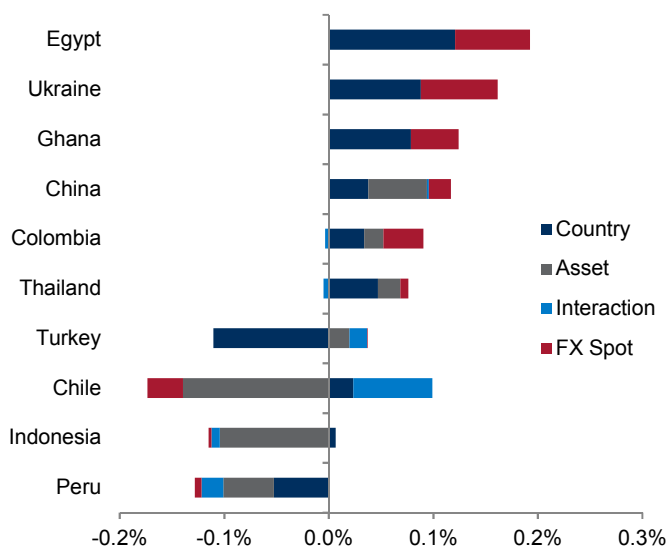
Country	Bond Exp.	Ccy Exp.
Mexico	11.47%	11.48%
China	11.41%	11.41%
Indonesia	10.46%	10.46%
Poland	8.26%	8.27%
Brazil	8.20%	8.21%
Russia	7.90%	7.90%
South Africa	7.52%	7.52%
Thailand	4.88%	4.88%
Colombia	3.87%	3.87%
Peru	3.86%	3.86%

### Duration distribution

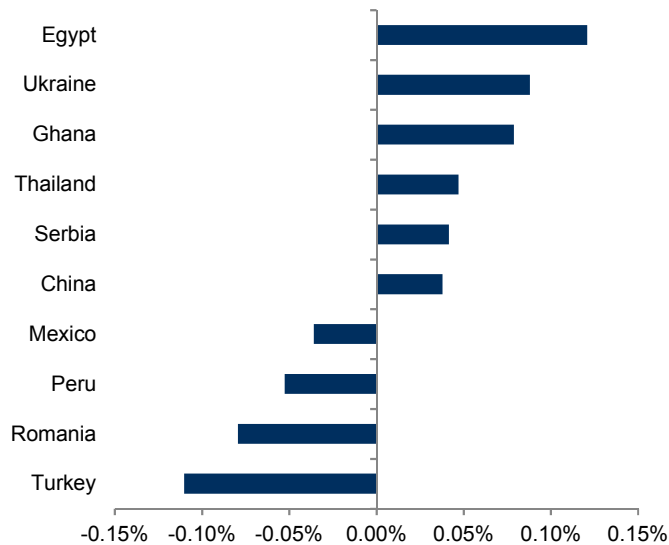
Dur. Years	Weight	Avg. Dur.
0-1	7.19%	0.37
1-3	19.71%	2.51
3-5	19.06%	4.43
5-7	30.04%	5.61
7-10	21.90%	7.77
10+	2.09%	10.54
Total	100.00%	4.97

# Sydinvest EM Local Currency Bonds: Quarterly performance attribution – Q1 2021

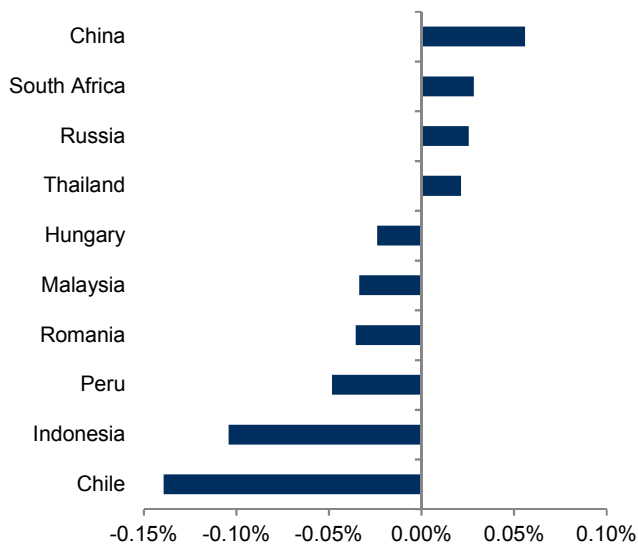
**Portfolio: Split of Attribution most important contributors**



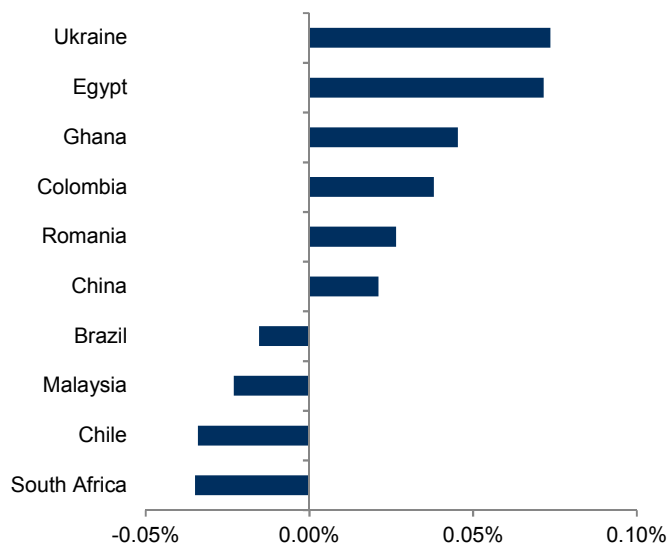
**Most Important Country Selection**



**Most Important Asset Selection**



**Most Important FX Selection**



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