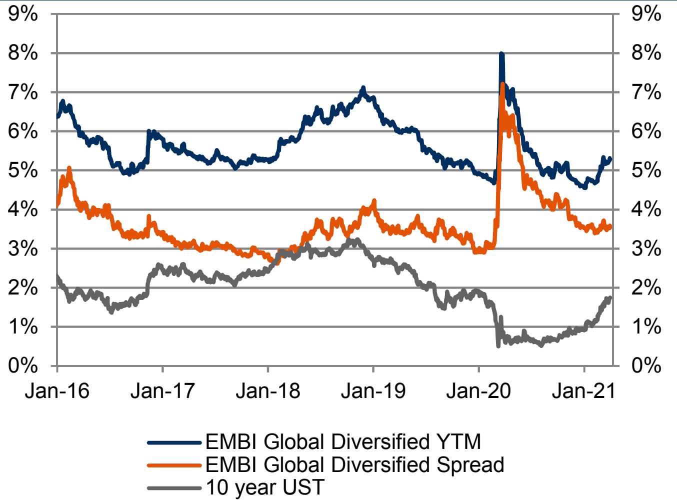
Sydinvest Emerging Markets Bonds I EUR Acc h

Quarterly Attribution Report - Q1 2021
9 April 2021

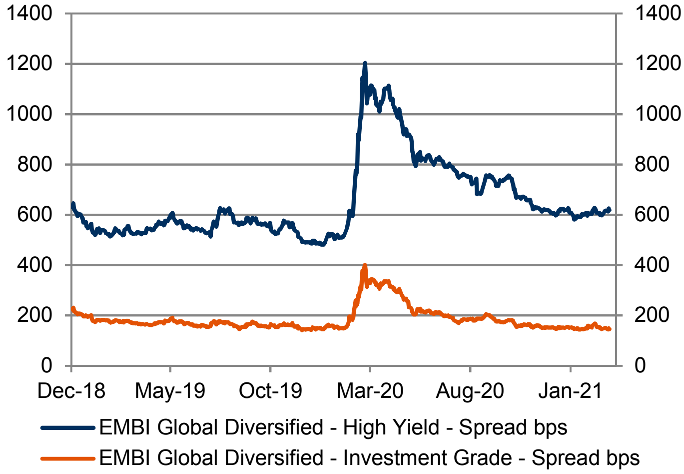
Main Points

- **Higher UST rates weighed on emerging market bonds in Q1.**
- **Benchmark emerging market bonds issued in USD returned minus 4.79% hedged to EUR as the YTM increased by 73bp to 5.28% and the credit spread increased marginally by 3bp to 354bp.**
- **The fund returned minus 5.61%, which was 82bp lower than 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.**

Benchmark emerging market bonds issued in USD returned minus 4.79% hedged to EUR as the YTM increased by 73bp to 5.28% and the credit spread increased marginally by 3bp to 354bp.



The duration-heavy IG part of the benchmark was the hardest hit by the UST movemnets whereas the non-IG part outperformed.



Performance Review: Portfolio return

The fund returned minus 5.61%, which was 82bp lower than its benchmark. Country selection weighed on performance whereas asset selection added to performance.

In Q1 the overweight and asset selection in Ukraine, the underweights and asset selection in Peru, Panama and Brazil as well as the asset selection in Russia added to performance. However the underweights in China and El Salvador, the overweight in Uruguay, the asset selection in Saudi Arabia as well as the overweight in Argentina detracted from performance.

For further portfolio return information please see pages 2 and 3.

Asset Class Review: EM hard currency markets

In Q1 emerging market bonds were under pressure from rising UST rates. Prospects of a global growth rebound kept financial markets and commodities well supported. In the end developments in the US bond market were the dominating factor.

Benchmark emerging market bonds issued in USD returned minus 4.79% hedged to EUR as the YTM increased by 73bp to 5.28%. However the credit spread was largely unchanged, increasing by 3bp to 353bp. The duration-heavy IG part of the benchmark was the hardest hit whereas the non-IG part outperformed. Most countries produced negative returns led by weak credits: Argentina , Belize and Ecuador. The outperformers were risky credits as well: Sri Lanka and Zambia followed by Costa Rica.

Portfolio & Strategy Changes

The fund is underweight in spread duration and neutral in Treasury duration. 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 largest overweights at the end of Q1 are Indonesia, the Ivory Coast and Ukraine whereas China, the Philippines and Bahrain are the largest underweights. In terms of duration Romania, the Ivory Coast and Indonesia are the largest overweights while Chile, the Philippines and China are the largest underweights.

During Q1 the fund changed its exposures in LatAm by reducing risk in Chile and Uruguay but added in Peru, Mexico, the Dominican Republic and Panama. In GCC the fund reduced risk in Qatar but added in Saudi Arabia.

For further portfolio information please see page 2.

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. Lockdowns continue in many places but things are also looking up.

In USA President Biden's relief package means that economic growth this year will be significantly higher than without the package. The Fed has stated that it is all right for inflation to be higher in the short term because it is more important to propel the economy into a higher gear. This combination has led to higher yields on long-term US Treasuries, which has put pressure on EM bonds. However we believe that the worst increases in interest rates are over for now. If they climb much higher they will begin to constrain economic growth in the US, which is not what the Fed wants at the present time. In addition one should not underestimate the fact that so far the increases have come about against a positive background – stronger economic growth.

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.

The IMF has decided to increase countries' SDR allocations, which means in practice that countries' currency reserves have been increased. This is particularly important for the weakest EM countries. There are no conditions attached to the SDR increase – unlike the IMF programmes.

EM bonds issued in hard currency faced severe headwinds in the form of rising US interest rates in Q1. The credit spread to US Treasuries is however largely unchanged and still attractive in our opinion. In particular we see value in the B rated segment and in the BBB segment issued in EUR. We believe that a slightly quieter fixed income market in the US will cause credit spreads to tighten. We continue to believe that the easy monetary policy pursued by the majority of central banks as well as wide open state coffers will mean that economies will recover and this trend will only intensify as the rollout of vaccines increases in 2021. In addition the huge US stimulus package is positive for the global economy.

Sydinvest Emerging Markets Bonds: Quarterly performance attribution – Q1 2021

Performance

	Fund	Benchmark	Performance
Current quarter	-5.61%	-4.79%	-0.82%
Year to date	-5.61%	-4.79%	-0.82%

Performance Attribution

Total	Country	Asset	Interaction	Cost	Residual
-0.82%	-1.71%	0.78%	0.25%	-0.13%	-0.01%

Total	Investment	Cash	Cost
-0.82%	-0.80%	0.10%	-0.13%

Top & Bottom Attribution Contributors

		Average OW/UW	Country	Asset	Interac-tion	Total
Top 5 Contributors	Peru	-0.75%	0.04%	0.23%	-0.08%	0.19%
	Russia	2.38%	-0.03%	0.11%	0.08%	0.16%
	Ukraine	2.80%	0.03%	0.07%	0.07%	0.16%
	Brazil	-1.04%	0.01%	0.19%	-0.06%	0.14%
	Panama	-1.33%	0.06%	0.14%	-0.07%	0.13%
Bottom 5 Contributors	Uruguay	1.24%	-0.06%	-0.02%	-0.01%	-0.08%
	El Salvador	-0.97%	-0.10%	0.00%	0.00%	-0.10%
	Saudi Arabia	-0.27%	0.00%	-0.12%	0.01%	-0.11%
	Argentina	1.24%	-0.14%	0.02%	0.01%	-0.12%
	China	-4.28%	-0.14%	0.00%	0.00%	-0.14%

Fund's historical performance

Year	Fund	Benchmark	Performance	Acc. perf.
2021 YTD	-5.61%	-4.79%	-0.82%	66.36%
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	3.39%	-0.01%	0.05%	0.03%	0.07%
	Ivory Coast	2.99%	-0.01%	0.00%	0.02%	0.02%
	Ukraine	2.80%	0.03%	0.07%	0.07%	0.16%
	Romania	2.41%	-0.01%	0.00%	0.01%	0.00%
	Ghana	2.39%	-0.05%	0.02%	0.03%	0.00%
5 Largest Underweights	United Arab Emirates	-2.56%	-0.01%	-0.26%	0.21%	-0.06%
	Kazakhstan	-2.59%	0.02%	0.00%	0.00%	0.02%
	Bahrain	-2.64%	-0.07%	0.00%	0.00%	-0.07%
	Philippines	-3.09%	0.03%	0.00%	0.00%	0.03%
	China	-4.28%	-0.14%	0.00%	0.00%	-0.14%

Portfolio Summary – As at 31 March 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	8.23%	4.61%	3.63%	8.04	8.76	0.26
	Ivory Coast	3.30%	0.39%	2.91%	8.20	6.28	0.25
	Ukraine	5.19%	2.42%	2.77%	2.63	4.80	0.02
	Romania	3.85%	1.48%	2.36%	12.26	8.24	0.35
	Ghana	3.70%	1.41%	2.29%	5.67	6.25	0.12
	Turkey	5.30%	3.47%	1.84%	4.46	5.50	0.05
	South Africa	4.22%	2.57%	1.65%	5.00	6.84	0.04
	Russia	5.00%	3.35%	1.65%	6.68	7.53	0.08
	Mexico	6.50%	4.89%	1.61%	10.15	9.20	0.21
	Egypt	4.10%	2.61%	1.49%	7.61	6.82	0.13
10 Largest Underweights	Oman	1.51%	2.68%	-1.16%	6.27	6.14	-0.07
	Panama	1.68%	2.85%	-1.16%	6.06	11.08	-0.21
	Poland	0.00%	1.28%	-1.28%	-	2.32	-0.03
	United Arab Emirates	2.46%	3.85%	-1.40%	11.94	8.90	-0.05
	Malaysia	0.74%	2.67%	-1.93%	1.78	8.67	-0.22
	Chile	0.57%	2.86%	-2.28%	6.08	11.58	-0.30
	Kazakhstan	0.00%	2.55%	-2.55%	-	8.55	-0.22
	Bahrain	0.00%	2.67%	-2.67%	-	5.45	-0.15
	Philippines	0.00%	3.06%	-3.06%	-	8.75	-0.27
	China	0.00%	4.40%	-4.40%	-	5.77	-0.25

Rating distribution

Composite Rating	
AAA	0.00%
AA	5.14%
A	6.62%
BBB	35.88%
BB	13.40%
B	32.38%
CCC and below	8.10%
Not rated	0.00%
Default	0.00%

Concentration risk

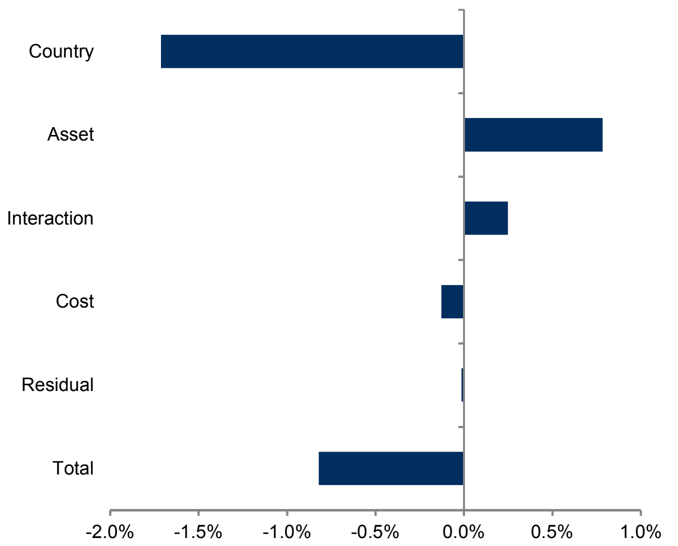
Country	Weight
Indonesia	8.23%
Mexico	6.50%
Turkey	5.30%
Ukraine	5.19%
Russia	5.00%
Qatar	4.66%
South Africa	4.22%
Egypt	4.10%
Saudi Arabia	4.03%
Romania	3.85%

Duration distribution

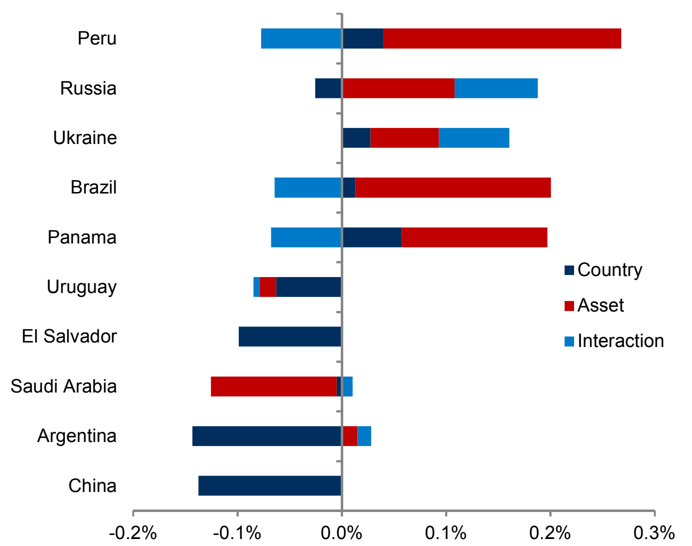
Dur. Years	Weight	Avg. Dur.
0-2	11.95%	1.00
2-5	17.05%	3.58
5-10	43.71%	6.54
10-15	17.52%	11.44
15+	9.76%	16.11
Total	100.00%	7.16

Sydinvest Emerging Markets Bonds: Quarterly performance attribution – Q1 2021

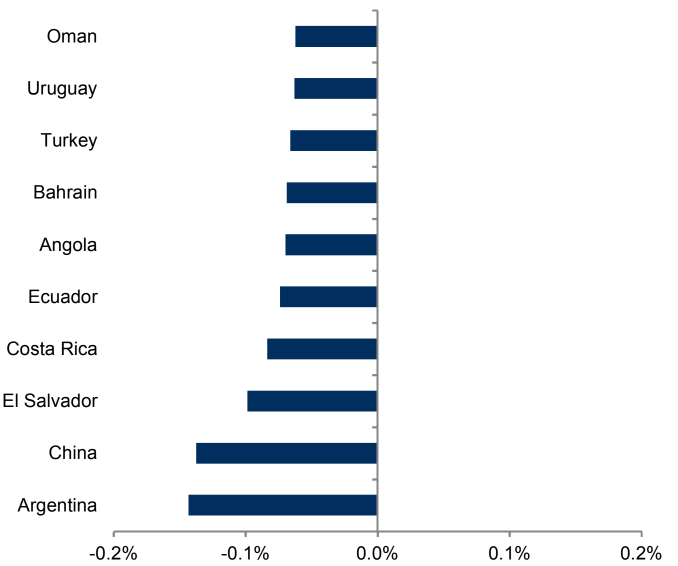
Portfolio: Overall Attribution



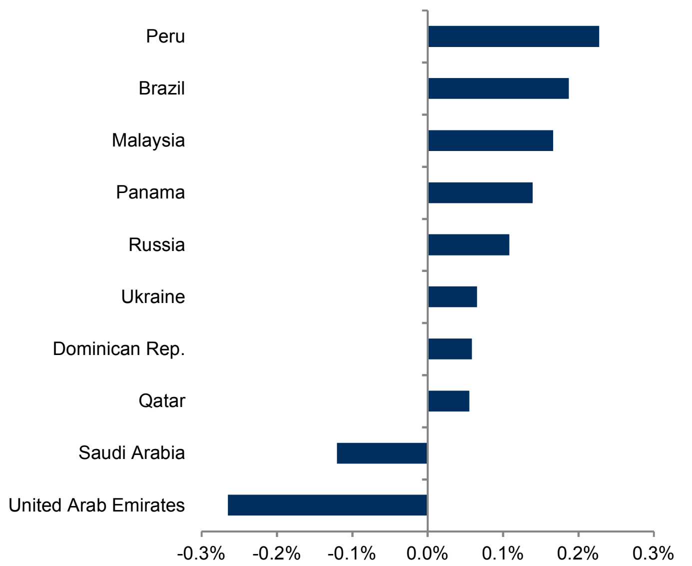
Portfolio: Split of Attribution most important contributors



Most Important Country Selection



Most Important Asset Selection



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