

# Sydinvest EM Sustainable Blended Debt acc I USD

## Quarterly Attribution Report - Q1 2021

9 April 2021

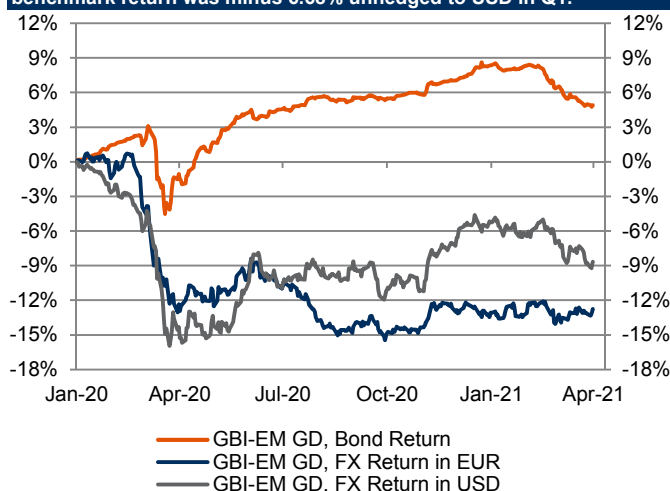
### Main Points

- In Q1 EM local bond markets were under pressure from rising UST rates.
- In Q1 benchmark EM bonds issued in USD returned minus 4.54% while EM bonds issued in local currency returned minus 6.68% unhedged to USD at benchmark level.
- The fund yielded a return of minus 6.31% in Q1, which was 71bp lower than its benchmark.
- The ESG exclusion of benchmark countries detracted from performance in Q1 as did selected strategies.

Benchmark emerging market bonds issued in USD returned minus 4.54% as the YTM increased by 73bp to 5.28% and the credit spread increased marginally by 3bp to 354bp.



The local benchmark bond return was minus 3.19% before currency fluctuations. EM FX weakened by 3.6% vs a strong USD. The total local benchmark return was minus 6.68% unhedged to USD in Q1.



### Performance Review: Portfolio return

The overall asset allocation was neutral throughout Q1. Performance was negative in both the hard currency part and the local currency part of the portfolio. In hard currency the asset selection in Peru, Brazil and Egypt, the overweight and asset selection in Ukraine as well as the underweight and asset selection in Panama added to performance. Conversely the asset selection in Qatar, the underweight in El Salvador, the overweights in Argentina and Uruguay as well as the ESG related underweight in China detracted from performance. In local currency the ESG related underweight in Turkey, the overweights in Ukraine, Egypt and Ghana as well as the overweight and asset selection in South Africa added to performance. Conversely the ESG related underweight in China, the overweights and asset selection in Thailand and Peru as well as the asset selection in Indonesia detracted from performance.

For further portfolio information please see pages 2 and 3.

### Asset Class Review

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. But increasing UST rates put pressure on global fixed income markets, which in the end was the dominating factor. Benchmark hard currency emerging market bonds issued in USD returned minus 4.54% as the YTM increased by 73bp. The credit spread was largely unchanged, increasing by a marginal 3bp to 354bp. Local currency EM bond rates increased by 78bp to 4.99%. The local benchmark bond return was minus 3.19% before currency fluctuations. EM FX strengthened a bit vs EUR but weakened by 3.6% vs a strong USD. The total local benchmark return was minus 6.68% unhedged to USD in Q1.

### Portfolio Strategy & Changes

The fund had a neutral allocation between hard currency and local currency throughout Q1. In hard currency the largest overweights at the end of Q1 are Senegal, Ghana and South Africa. Measured by duration the most significant overweights are Mexico, Romania and Qatar. The Philippines, Malaysia and Peru are the largest active (non-ESG related) underweights. The fund has several substantial overweights in frontier countries, for instance Ghana, the Seychelles and Laos. In local currency the largest FX overweights are Mexico, South Africa and Egypt whereas the largest active (non-ESG related) underweights are Malaysia, Romania and Hungary.

For a deeper dive into the portfolio changes please see the monthly portfolio reports.

### 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.

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.

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.

Inflation has started to emerge in several EM countries. Some of it is attributable to "base effects", i.e. 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. 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.

# Sydivest EM Sustainable Blended Debt: Performance attribution – Q1 2021

## Performance

	Fund	Benchmark	Performance
Current quarter	-6.31%	-5.60%	-0.71%
Year to date	-6.31%	-5.60%	-0.71%

## Performance Attribution

	Avg Wgt.	Fund	Benchmark	Performance
Allocation				0.00%
External Debt	50.00%	-2.55%	-2.27%	-0.28%
Local Debt	50.00%	-3.76%	-3.33%	-0.43%
<b>Total</b>	<b>100.00%</b>	<b>-6.31%</b>	<b>-5.60%</b>	<b>-0.71%</b>

## Performance Attribution: Break-down

	Country	Asset	Interaction	FX Spot	Perf.
HC Excluded Countries	-0.11%	0.00%	0.00%	0.00%	-0.11%
HC Excluded Quasi-Sovereigns	0.00%	0.00%	0.00%	0.00%	0.00%
LC Excluded Countries	-0.09%	0.00%	0.00%	-0.15%	-0.24%
<b>Total, Excluded</b>	<b>-0.21%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>-0.15%</b>	<b>-0.36%</b>
HC, non-Excluded	-0.10%	-0.03%	-0.01%	0.04%	-0.10%
LC, non-Excluded	-0.24%	0.03%	0.04%	0.05%	-0.12%
<b>Total, non-Excl.</b>	<b>-0.34%</b>	<b>0.00%</b>	<b>0.03%</b>	<b>0.09%</b>	<b>-0.22%</b>
Asset Class Allocation	0.00%	0.00%	0.00%	0.00%	0.00%
Cost	-0.14%	0.00%	0.00%	0.00%	-0.14%
<b>Strategy Total Performance</b>	<b>-0.68%</b>	<b>0.00%</b>	<b>0.03%</b>	<b>-0.06%</b>	<b>-0.71%</b>

\*) The Strategy's total performance is a combination of the ESG excluded (mandatory underweights) as well as active over- and underweights relative to the benchmark.

## Hard Currency: Active Strategies in non-excluded Countries\*

	Average OW/UW	Country	Asset	Interaction	FX Spot	Total	
Top 5 Contributors	Ukraine	1.61%	0.02%	0.03%	0.04%	0.09%	
	Peru	-0.40%	0.02%	0.11%	-0.04%	0.00%	0.09%
	Brazil	-0.20%	0.00%	0.09%	-0.01%	0.00%	0.08%
	Panama	-0.68%	0.04%	0.08%	-0.05%	0.00%	0.08%
	Egypt	1.10%	-0.02%	0.05%	0.04%	0.00%	0.06%
Bottom 5 Contributors	Costa Rica	-0.40%	-0.04%	0.00%	0.00%	0.00%	-0.04%
	El Salvador	-0.48%	-0.05%	0.00%	0.00%	0.00%	-0.05%
	Uruguay	1.60%	-0.05%	0.00%	0.00%	0.00%	-0.05%
	Argentina	0.53%	-0.06%	0.00%	0.00%	0.00%	-0.05%
	Qatar	0.73%	0.00%	-0.05%	-0.02%	0.00%	-0.07%

## Local Currency: Active Strategies in non-excluded Countries\*

	Average OW/UW	Country	Asset	Interaction	FX Spot	Total	
Top 5 Contributors	Ukraine	0.77%	0.04%	0.00%	0.00%	0.04%	0.08%
	South Africa	1.63%	0.02%	0.01%	0.01%	0.03%	0.07%
	Egypt	0.93%	0.04%	0.00%	0.00%	0.03%	0.07%
	Ghana	0.42%	0.04%	0.00%	0.00%	0.02%	0.06%
	Mexico	3.65%	-0.06%	0.04%	0.03%	0.02%	0.03%
Bottom 5 Contributors	Brazil	0.63%	-0.01%	0.00%	0.00%	-0.04%	-0.05%
	Colombia	0.98%	-0.03%	0.00%	0.00%	-0.04%	-0.06%
	Indonesia	0.88%	0.00%	-0.07%	-0.01%	0.00%	-0.08%
	Peru	0.90%	-0.04%	-0.02%	-0.02%	0.00%	-0.08%
	Thailand	0.88%	-0.01%	-0.08%	-0.02%	-0.01%	-0.11%

## Portfolio Summary – As at 31 March 2021

### Five largest over- and under weights in the portfolio for Hard Currency (HC) Bonds

	Country	Bond Weight	O/U Weight	FX Weight	O/U FX Weight	Duration, PF	Duration, BM	Rel. Duration Cont.
5 Largest Overweights	Senegal	2.18%	2.00%	-	-	5.06	8.07	0.10
	Mexico	4.36%	1.92%	-	-	10.93	9.20	0.25
	Ghana	2.61%	1.91%	-	-	5.47	6.25	0.10
	South Africa	3.09%	1.81%	-	-	6.08	6.84	0.10
	Indonesia	4.11%	1.81%	-	-	7.14	8.76	0.09
5 Largest Underweights	Russia	0.00%	-1.67%	-	-	0.00	7.53	-0.13
	Turkey	0.00%	-1.73%	-	-	0.00	5.50	-0.10
	United Arab Emirates	0.00%	-1.93%	-	-	0.00	8.90	-0.17
	Saudi Arabia	0.00%	-1.94%	-	-	0.00	9.35	-0.18
	China	0.00%	-2.20%	-	-	0.00	5.77	-0.13

\*) The country is excluded from the fund due to the ESG process. Please refer to the last page.

### Five largest over- and under weights in the portfolio for Local Currency (LC) Bonds

	Country	Bond Weight	O/U Weight	FX Weight	O/U FX Weight	Duration, PF	Duration, BM	Rel. Duration Cont.
5 Largest Overweights	Mexico	8.43%	3.71%	8.46%	3.74%	4.62	5.06	0.15
	South Africa	5.44%	1.58%	5.44%	1.59%	7.24	6.35	0.15
	Colombia	3.48%	1.02%	3.48%	1.02%	4.99	5.02	0.05
	Egypt	0.93%	0.93%	0.93%	0.93%	0.76	0.00	0.01
	Peru	2.15%	0.92%	2.15%	0.92%	7.97	7.28	0.08
5 Largest Underweights	Romania	0.69%	-0.90%	0.70%	-0.90%	8.47	3.63	0.00
	Turkey	0.00%	-0.91%	0.00%	-0.91%	0.00	2.66	-0.02
	Malaysia	2.56%	-1.13%	2.56%	-1.13%	5.76	5.73	-0.06
	Russia	0.00%	-3.63%	0.00%	-3.63%	0.00	4.76	-0.17
	China	0.00%	-5.00%	0.00%	-5.00%	0.00	5.62	-0.28

\*) The country is excluded from the fund due to the ESG process. Please refer to the last page.

### Rating distribution

Composite Rating	
AAA	5.62%
AA	3.88%
A	12.20%
BBB	41.62%
BB	19.99%
B	14.57%
CCC and below	3.39%
Not rated	0.00%
Default	1.34%

### Concentration risk

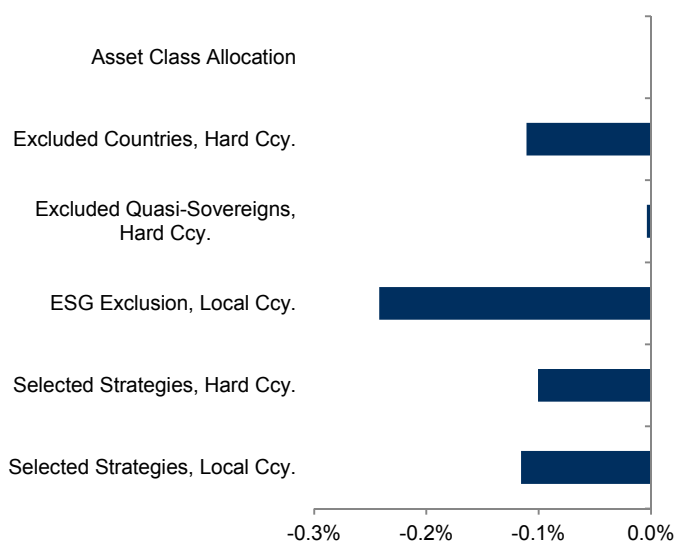
Country	Total Bond	HC Bond	LC Bond	Ccy Exp.
Mexico	12.79%	4.36%	8.43%	8.46%
Indonesia	9.62%	4.11%	5.51%	5.51%
South Africa	8.53%	3.09%	5.44%	5.44%
Brazil	5.89%	1.25%	4.64%	4.64%
Colombia	5.16%	1.68%	3.48%	3.48%
Thailand	4.99%	0.00%	4.99%	4.99%
Poland	4.60%	0.00%	4.60%	4.60%
Ukraine	3.59%	2.78%	0.82%	0.82%
Egypt	3.33%	2.39%	0.93%	0.93%

### Duration distribution

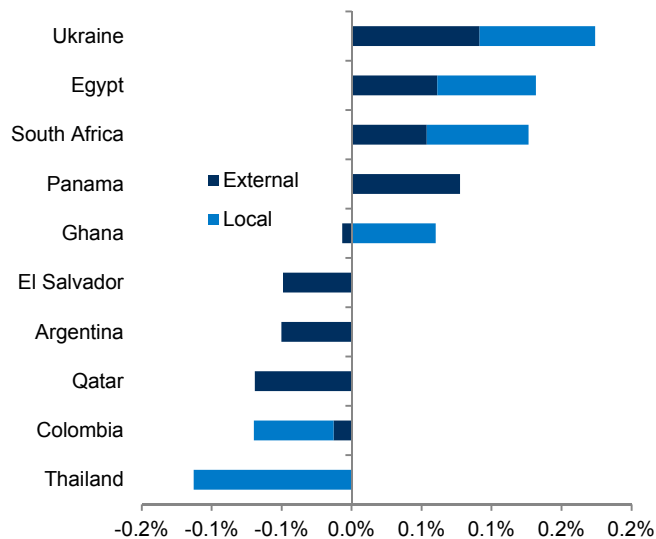
Dur. Years	Weight	Avg. Dur.
0-2	12.22%	0.84
2-5	26.67%	3.70
5-10	43.01%	6.73
10-15	12.19%	11.59
15+	5.92%	16.19
Total	100.00%	6.35

# Sydinvest EM Sustainable Blended Debt: Performance attribution – Q1 2021

**Attribution: Break-down on ESG and Asset Class**

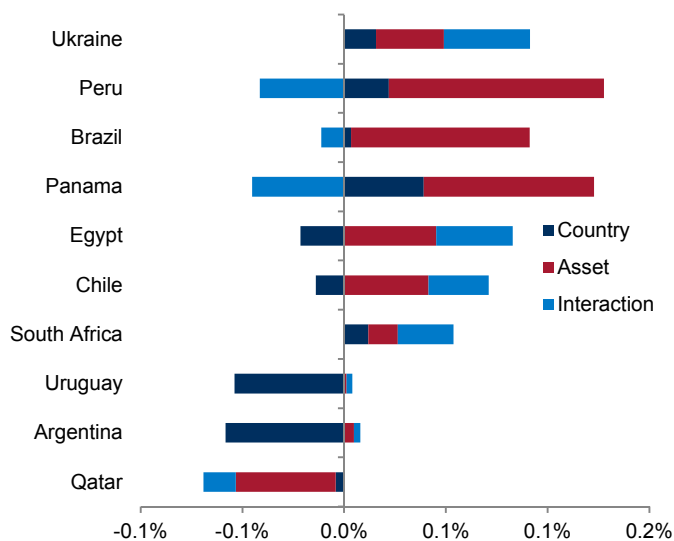


**Attribution split: Most important Active Strategies\*\***

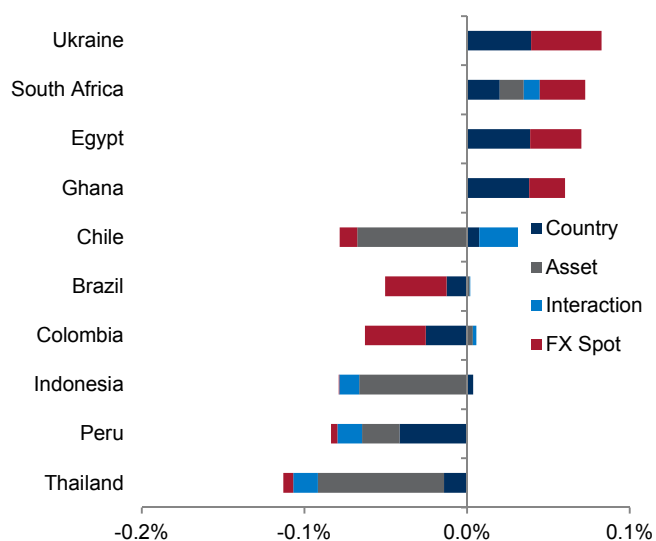


\*\*\*) The graphs only show Active Strategies, i.e. contributions from mandatory exclusions are not displayed.

**External debt: Most important contributors\*\***



**Local debt: Most important contributors\*\***



\*\*\*) The graphs only show Active Strategies, i.e. contributions from mandatory exclusions are not displayed.

**Investor Relations Contact**

Mick Olsen  
Institutional Sales Manager  
Syd Fund Management  
mick.olsen@sydinvest.dk  
Phone: +45 7437 3325

**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

**Important disclosure for investors:**

The publication has been prepared by Sydbank on behalf of Investeringsforeningen Sydinvest. This publication does not represent an offer or an invitation to purchase or sell financial instruments. Nor does it represent a personal recommendation (investment advice) in relation to financial instruments. Any general recommendations are an expression of Sydbank's expectations on the basis of current market conditions. Consequently the recommendations are not based on fundamentals and therefore any investment decisions cannot be based on this publication alone. In case of specific investment actions Sydinvest and Sydbank always recommends that you seek separate advice. Investments are associated with the risk of financial loss. Past returns and price developments or forecasts cannot be used as reliable indicators of future returns and price developments. Sydinvest and Sydbank accepts no responsibility for losses which may have any direct or indirect connection with transactions made solely on the basis of this publication. This publication has been prepared on the basis of information from sources which Sydbank believes to be reliable. Sydinvest and Sydbank assumes no liability for errors, including any source errors, misprints or errors of calculation, or for any subsequent changes in assumptions. The Bank or its employees may hold financial instruments described in this publication. This publication is aimed at clients of Sydinvest and may not be published or further distributed without the express consent of the Bank. Sydinvest, Peberlyk 4, 6200 Aabenraa, Denmark, CVR No DK 24260534 is under the supervision of the Danish FSA, Artusgade 110, 2100 Copenhagen Ø, Denmark.