

Sydinvest EM Sustainable Bonds d W DKK

Quarterly Attribution Report - Q1 2021 27 April 2021

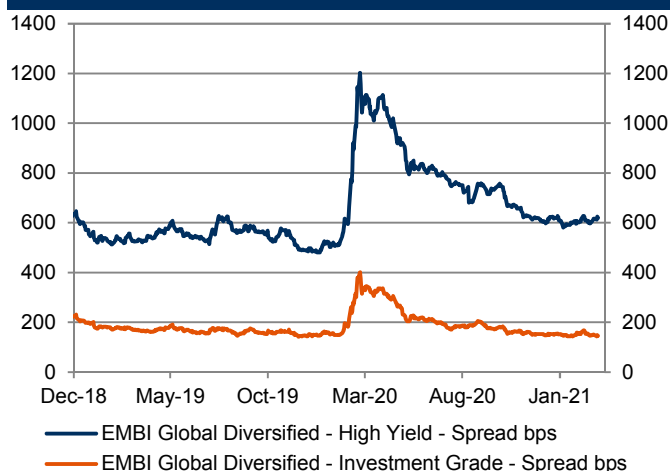
Main Points

- Higher UST rates weighed on emerging market bonds in Q1.
- Benchmark emerging market bonds issued in USD returned minus 4.76% hedged to DKK as the YTM increased by 73bp to 5.28% and the credit spread increased marginally by 3bp to 354bp.
- The fund returned minus 5.28%, which was 53bp lower than its benchmark.
- The ESG exclusion of benchmark countries and quasi sovereigns detracted 23bp from performance in Q1.

Benchmark emerging market bonds issued in USD returned minus 4.76% hedged to DKK 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 movements whereas the non-IG part outperformed.



Performance Review: Portfolio return

The fund returned minus 5.28%, which was 53bp lower than its benchmark. The ESG exclusion of benchmark countries and quasi sovereigns detracted 23bp from performance in Q1. Country selection weighed on performance whereas asset selection added to performance.

The asset selection in Peru, Brazil and Egypt, the overweight and asset selection in Ukraine the ESG related underweights in Turkey, Malaysia and Russia as well as the underweight and asset selection in Panama added to performance. Conversely the underweight in El Salvador and Costa Rica, the overweights in Argentina and Uruguay as well as the ESG related underweights in China, Angola and Pakistan 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 4.76% hedged to DKK as the YTM increased by 73bp.

The credit spread was largely unchanged, increasing by a marginal 3bp to 354bp. 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 Senegal, Ghana and South Africa. Measured by duration the most significant overweights are Mexico, Romania and Uruguay. 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.

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. 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.

Sydney EM Sustainable Bonds d W DKK: Performance attribution – Q1 2021

Performance – Q1 2021

	Fund	Benchmark	Performance
Current quarter	-5.28%	-4.76%	-0.53%
Year to date	-5.28%	-4.76%	-0.53%

Performance Attribution - Q1 2021

Country	Asset	Interaction	Residual	Cost	Total
	-1.95%	0.96%	0.56%	0.02%	-0.13%
					-0.53%

Performance Attribution: Break-down - Q1 2021

	Country	Asset	Interaction	Performance
Excluded Countries	-0.22%	-	-	-0.22%
Excluded Quasi-Sovereigns	-0.01%	-	-	-0.01%
Selected Strategies	-0.25%	0.03%	0.05%	-0.17%
Cost	-0.13%	-	-	-0.13%
0.00%	-0.61%	0.03%	0.05%	-0.53%

ESG Excluded Countries or company: Top & Bottom

	OW/UW	Performance
Turkey	-3.56%	0.11%
Malaysia	-1.79%	0.05%
Russia	-3.39%	0.03%
Peru	-0.32%	0.02%
Iraq	-0.44%	-0.03%
Pakistan	-0.59%	-0.04%
Angola	-1.10%	-0.07%
China	-4.28%	-0.14%

Active Strategies in non-excluded Countries: Top contributors*

	Average OW/UW	Country	Asset	Interaction	Total
Top 5 Contributors	Ukraine	3.56%	0.02%	0.07%	0.10%
	Peru	-0.64%	0.04%	0.22%	-0.08%
	Brazil	-0.11%	-0.01%	0.18%	0.00%
	Panama	-1.24%	0.07%	0.15%	-0.08%
	Chile	2.00%	-0.03%	0.09%	0.06%
Bottom 5 Contributors	Kenya	1.08%	0.01%	-0.03%	-0.04%
	Costa Rica	-0.79%	-0.08%	0.00%	0.00%
	El Salvador	-0.97%	-0.10%	0.00%	0.00%
	Uruguay	3.67%	-0.13%	0.01%	0.02%
	Argentina	1.21%	-0.14%	0.01%	0.01%

Active Strategies in non-excluded Countries: Top OW/UW*

	Average OW/UW	Country	Asset	Interaction	Total
Top 5 Contributors	Mexico	5.21%	-0.18%	0.06%	0.12%
	Indonesia	5.14%	0.01%	0.02%	0.03%
	South Africa	4.16%	0.01%	0.03%	0.06%
	Senegal	3.90%	-0.17%	0.02%	0.20%
	Ghana	3.85%	-0.08%	0.02%	0.05%
Bottom 5 Contributors	Panama	-1.24%	0.07%	0.15%	-0.08%
	Poland	-1.29%	-0.05%	0.00%	0.00%
	Kazakhstan	-1.44%	0.01%	0.00%	0.00%
	Bahrain	-2.38%	-0.06%	0.00%	0.00%
	Philippines	-2.96%	0.03%	0.00%	0.00%

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

Portfolio Summary – As at 31 March 2021

Ten largest Active over- and underweight allocations in the portfolio.

	Country	Weight, PF	Weight, BM	Over/underweight	Duration, PF	Duration, BM	Rel. Duration Cont.
10 Largest Overweights	Indonesia	8.62%	4.61%	4.01%	7.38	8.76	0.23
	South Africa	6.40%	2.57%	3.83%	6.18	6.84	0.22
	Senegal	4.06%	0.36%	3.70%	5.06	8.07	0.18
	Ukraine	6.01%	2.42%	3.59%	2.80	4.80	0.05
	Ghana	4.98%	1.41%	3.57%	5.62	6.25	0.19
	Romania	4.82%	1.48%	3.33%	11.47	8.24	0.43
	Mexico	7.81%	4.89%	2.93%	10.78	9.20	0.39
	Uruguay	5.04%	2.33%	2.71%	12.11	11.74	0.34
	Dominican Rep.	4.96%	2.66%	2.31%	7.88	9.11	0.15
	Montenegro	1.92%	-	1.92%	4.80	0.00	0.09
10 Largest Underweights	Nigeria*	0.00%	1.50%	-1.50%	0.00	6.99	-0.10
	Kazakhstan	0.00%	2.55%	-2.55%	0.00	8.55	-0.22
	Malaysia	0.00%	2.67%	-2.67%	0.00	8.67	-0.23
	Bahrain	0.00%	2.67%	-2.67%	0.00	5.45	-0.15
	Philippines	0.00%	3.06%	-3.06%	0.00	8.75	-0.27
	Russia*	0.00%	3.35%	-3.35%	0.00	7.53	-0.25
	Turkey*	0.00%	3.47%	-3.47%	0.00	5.50	-0.19
	United Arab Emirates*	0.00%	3.85%	-3.85%	0.00	8.90	-0.34
	Saudi Arabia*	0.00%	3.89%	-3.89%	0.00	9.35	-0.36
	China*	0.00%	4.40%	-4.40%	0.00	5.77	-0.25

*) The country is excluded from the fund due to the ESG process.

Rating distribution

Composite Rating	
AAA	0.00%
AA	4.85%
A	7.30%
BBB	35.89%
BB	19.67%
B	27.94%
CCC and below	0.00%
Not rated	0.00%
Default	0.00%

Concentration risk

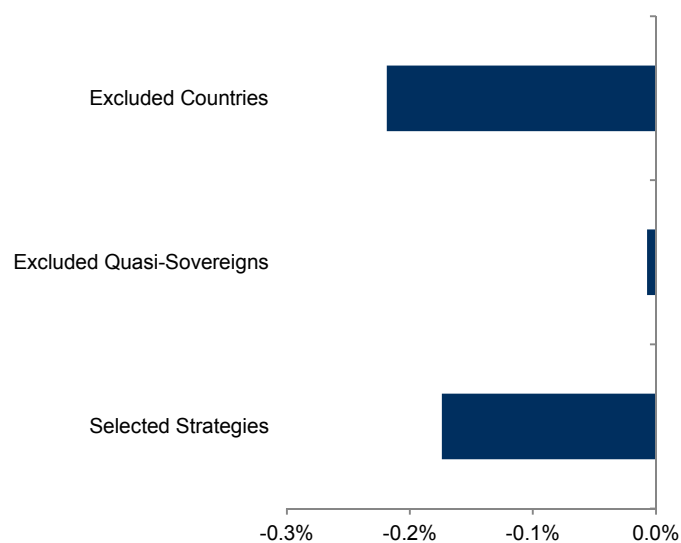
Country	Weight
Indonesia	8.62%
Mexico	7.81%
South Africa	6.40%
Ukraine	6.01%
Uruguay	5.04%
Ghana	4.98%
Dominican Rep.	4.96%
Qatar	4.85%
Romania	4.82%

Duration distribution

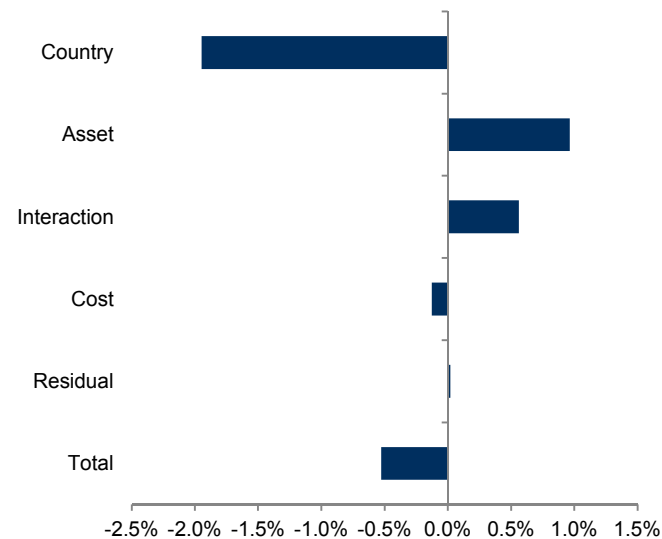
Dur. Years	Weight	Avg. Dur.
0-2	8.26%	0.89
2-5	19.11%	3.74
5-10	43.80%	6.62
10-15	17.73%	11.48
15+	11.10%	16.32
Total	100.00%	7.54

Sydinvest EM Sustainable Bonds d W DKK: Performance attribution – Q1 2021

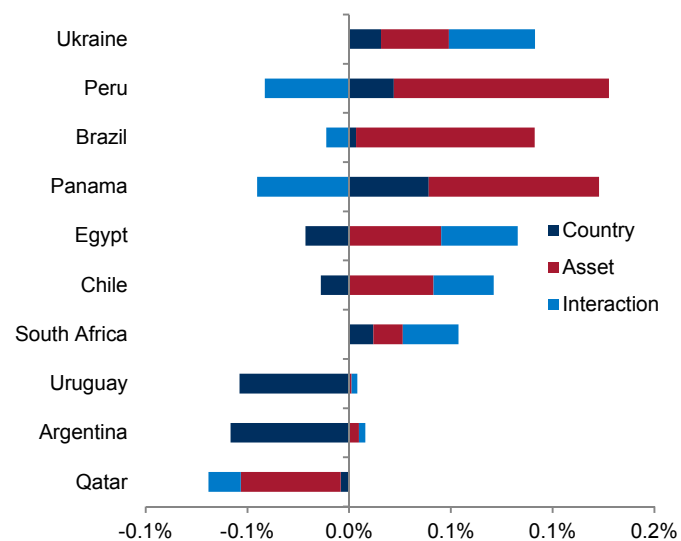
Attribution: Break-down on ESG and excluded



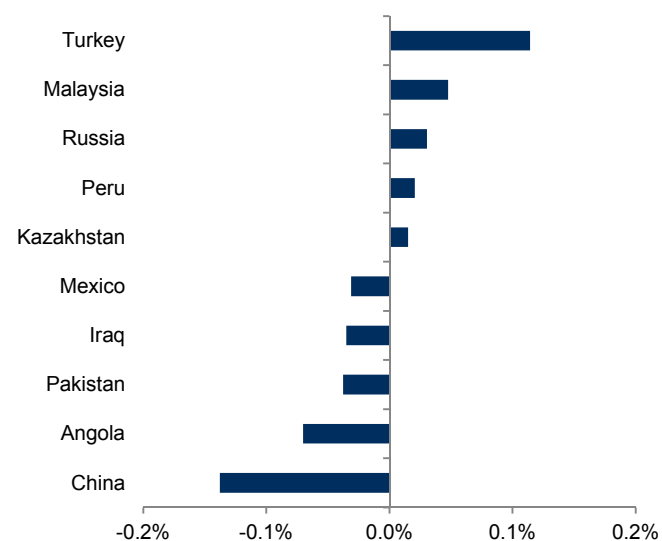
Attribution: Overall



Attribution: Most important contributors**



Attribution: ESG Excluded Countries or Quasi Sovereigns



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

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