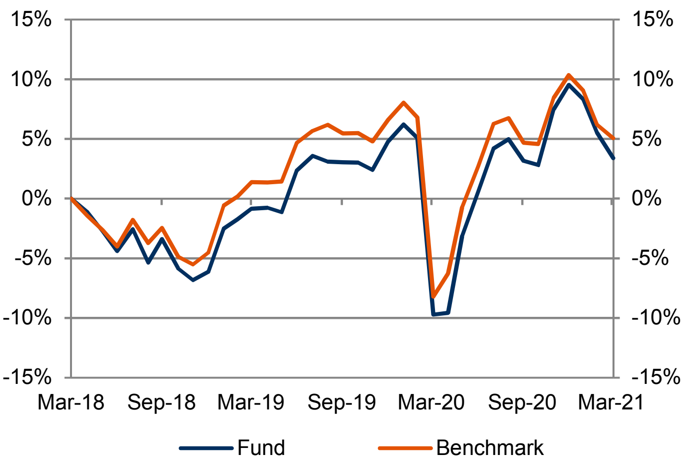
Sydinvest Emerging Markets Bonds I EUR Acc h

Monthly Report - March 2021
9 April 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	-2.05%	-5.61%	-5.61%	0.24%	14.51%
Benchmark	-1.08%	-4.79%	-4.79%	0.37%	14.46%
Performance	-0.96%	-0.82%	-0.82%	-0.13%	0.06%

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 Manager Report

Sydinvest Emerging Markets Bonds generated a return of minus 2.05% in March, which was 96bp lower than the return of its benchmark.

Performance was affected positively by the overweight in the Seychelles as well as the asset allocation in Brazil. Conversely the overweight and asset allocation in Turkey, the overweights in Laos, Argentina, the Ivory Coast and Ghana as well as the asset allocations in Saudi Arabia and Chile detracted from performance.

Portfolio Strategy and Changes

The fund is slightly underweight in spread duration and 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 March we reduced in the belly of the curve in Uruguay. In Mexico we concentrated all our PEMEX exposure in a 2029 bond issued in EUR. In Russia we made a switch and reduced exposure. We sold our bonds in Mongolia. In Ghana we moved a bit further out the curve. We added in the Emirate of Sharjah that is part of the United Arab Emirate through a new issue.

Key Figures

Ratios, end of month	March	Change	February
Fund Yield to maturity *	5.38%	0.36%	5.02%
Benchmark Yield to maturity *	4.60%	0.15%	4.45%
Fund Duration	7.58	-0.07	7.64
Spread Duration	7.16	0.05	7.12
Benchmark Duration	7.64	-0.10	7.73
No. of countries	42	-1	43
No. of issues	130	-4	134
Gov. bonds, %	84.38%	-0.22%	84.60%
Quasi Sov., %	13.77%	-0.13%	13.90%
Cash, %	1.32%	-0.16%	1.47%
Total Fund AUM, mn EUR	183.47	-6.40	189.87
NAV	2,629.35	-54.92	2,684.27
Avg. rating S&P	BB		BB
Beta, 3Yr.	1.03	0.00	1.03
Track. Error, 3 yr	1.99%	0.07%	1.92%
Sharpe Ratio, 3 yr	0.13	-0.04	0.18
Info. Ratio, 3 yr	-0.27	-0.09	-0.18
Jensen Alpha, 3 yr	-0.61%	-0.19%	-0.42%
Volatility, 3 yr	11.51%	0.06%	11.44%

*) 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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Sydinvest

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Hard Currency Emerging Market bond market – March

In March UST rates kept rising and this continued to put pressure on EM bonds. Oil prices came down a bit but this was due in part to the OPEC+ decision to raise production due to greater demand. EM hard currency bonds and benchmark credit spreads tightened by 4bp to 354bp. The spread tightening happened in the IG part of the benchmark whereas spreads widened in the HY part. Tighter spreads could not make up for the relentless rise in UST rates and the yield to maturity of the benchmark rose by 18bp to 5.28%. The result was a monthly benchmark return of minus 1.08% hedged to EUR. Turkey was one of the weakest credits due to Erdogan firing central bank governor Agbal only two days after Agbal had led the central bank to a surprise 200bp hike, which did not sit well with Erdogan. The market now fears that Turkey is going back to wasting its FX reserves on defending the lira.

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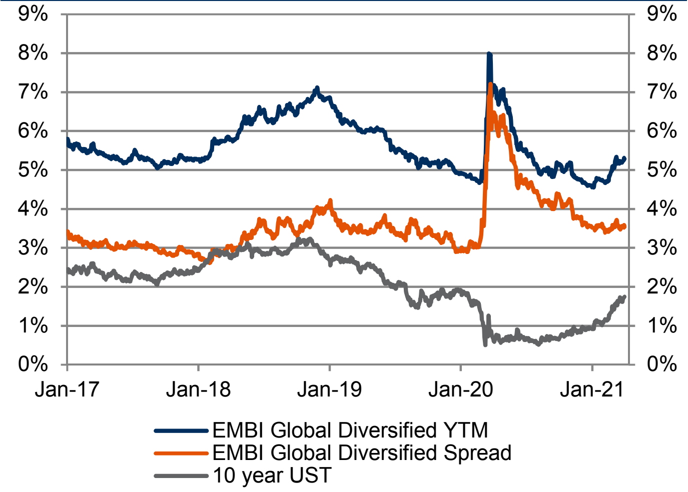

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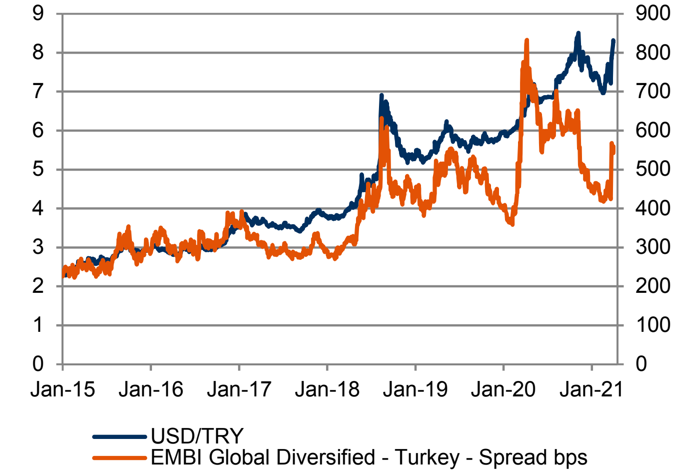

Asset Class Outlook

Small bond inflows to emerging market hard currency funds resumed after the large outflows in late February and early March, which is a positive development. The increase in US Treasury bond yields (the underlying component of emerging market bond yields) has made valuations of emerging market bond yields more compelling. This increase, since February, as investors again seek higher bond yields in the US, higher that is than its main advanced economy counterparts such as the eurozone, Japan and Switzerland, increases the allure of emerging market bond yields. Emerging market bond yields have risen generally in line with the increases in the US but at a time when risk appetite has wobbled, there has been a differentiation in performance in March as investment grade bonds performed relatively well whilst single B credits have now started to struggle.

Commodity exporters took a mini step backwards from the earlier unstoppable flight higher in commodity prices as well as being hit by some local surges in coronavirus cases. Latin America remains the main Covid laggard as cases and deaths are still on the rise. Capacity limits are again being tested across ICU wards in places such as Brazil, Peru and Chile with new lockdowns again being broadened or reintroduced in Santiago and Lima. We expect therefore to see a very differentiated economic recovery with some emerging markets lagging the recovery in advanced economies as vaccines take hold much faster in the latter.

It is also this staggered recovery which will keep the airlines waiting for the passengers to fill their planes. Countries that are well ahead in their vaccination programmes, such as the UK and Israel, will be loath to open up to vast amounts of inward travel as they strive towards full immunisation as concerns remain about new variants and the length of protection gained from vaccine-induced antibodies. This means that countries dependent on tourism, for instance Thailand, will have to keep waiting for the floodgates to open. This differentiated vaccination success should keep full reopenings at bay and does not bode well for the performance of tourist-dependent economies such as Thailand, the Dominican Republic and Sri Lanka. We also believe that it explains the recent stalling in oil prices and might bring some renewed pressure on oil exporters as we go forward.

US President Biden's proposals for a new and even greater stimulus to rebuild infrastructure is positive for the growth outlook in the US and risk appetite in emerging markets. It supports the outlook for commodity prices but at the same time it increases pressure for higher US Treasury yields as the spending will need to be financed with greater levels of US Treasury bond supply. So far emerging market investors have taken the more sanguine view that the positive effects on growth and exports from the anticipated economic recovery are more helpful than the damage emanating from higher financing costs. We would concur with that approach.

We maintain a neutral view on emerging market sovereign credit. The risks are balanced between the outlook for rising bond yields as well as growing fiscal challenges and the supportive economic outlook which still points to a strong recovery in 2021.

Turkey had finally started to win back the financial market's credibility with the more pragmatic orthodox line which had been taken in the central bank's battle with inflation. Sadly, two days after another interest rate hike to 19%, the head of the central bank was summarily fired. This is the definition of economic suicide, all because a deluded President Erdogan thinks he knows better than conventional economic wisdom. Or simply because he is desperate to fire up the economy before the next election. Either way, the move was abrupt and ugly for Turkish Eurobonds as credit spreads widened by 200 basis points, bringing the extra yield on 5-year USD bonds versus US Treasuries to more than 5.5%.

Ecuador will hold the second round of presidential elections on 11 April. After our relief that market friendly candidate Lasso scraped through to the second round, recent polls have indicated that he still has a chance against the clear winner of the first round, Arauz. With such a binary outcome in store, we maintain a small overweight given valuations and favourable bond repayments but remain cautious given the potential policy direction change an Arauz victory would likely bring.

We added exposure to bonds in Ghana and Pakistan through attractively priced new deals. We quickly sold in Pakistan after sharp intra-day gains of almost 5%. It was not third time lucky for Laos as it failed again to issue a planned new USD 300m 5-year Eurobond. The sovereign is now in dire straits as its financing options are running thin.

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

Performance

	Fund	Benchmark	Performance
Current month	-2.05%	-1.08%	-0.96%
Year to date	-5.61%	-4.79%	-0.82%

Performance Attribution

Total	Country	Asset	Interaction	Cost	Residual
-0.96%	-0.81%	-0.26%	0.08%	-0.05%	0.07%

Total	Investment	Cash	Cost
-0.96%	-0.93%	0.02%	-0.05%

Top & Bottom Attribution Contributors

		Average OW/UW	Country	Asset	Interac- tion	Total
Top 5 Contributors	Seychelles	1.32%	0.02%	0.00%	0.00%	0.02%
	Brazil	-1.05%	0.00%	0.03%	-0.01%	0.02%
	Vietnam	1.27%	0.01%	0.00%	0.01%	0.02%
	Peru	-0.39%	0.00%	0.02%	0.00%	0.02%
	Angola	-1.12%	0.02%	0.00%	0.00%	0.02%
Bottom 5 Contributors	Argentina	1.27%	-0.06%	0.01%	0.01%	-0.04%
	Saudi Arabia	0.28%	0.00%	-0.04%	0.00%	-0.04%
	Ghana	2.40%	-0.09%	0.01%	0.01%	-0.07%
	Laos	0.89%	-0.07%	0.00%	0.00%	-0.07%
	Turkey	1.83%	-0.10%	-0.03%	-0.01%	-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	3.53%	0.02%	-0.02%	-0.02%	-0.02%
	Ivory Coast	2.93%	-0.05%	0.00%	0.01%	-0.04%
	Ukraine	2.92%	0.02%	-0.02%	-0.02%	-0.02%
	Ghana	2.40%	-0.09%	0.01%	0.01%	-0.07%
	Romania	2.38%	0.02%	-0.01%	-0.02%	-0.01%
5 Largest Underweights	Chile	-2.25%	-0.02%	-0.08%	0.07%	-0.03%
	Kazakhstan	-2.55%	-0.01%	0.00%	0.00%	-0.01%
	Bahrain	-2.68%	-0.01%	0.00%	0.00%	-0.01%
	Philippines	-3.06%	0.00%	0.00%	0.00%	0.00%
	China	-4.36%	-0.02%	0.00%	0.00%	-0.02%

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	1.27%

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