

Sydinvest Emerging Markets Bonds I EUR Acc h

Quarterly Attribution Report - Q1 2022 8 April 2022

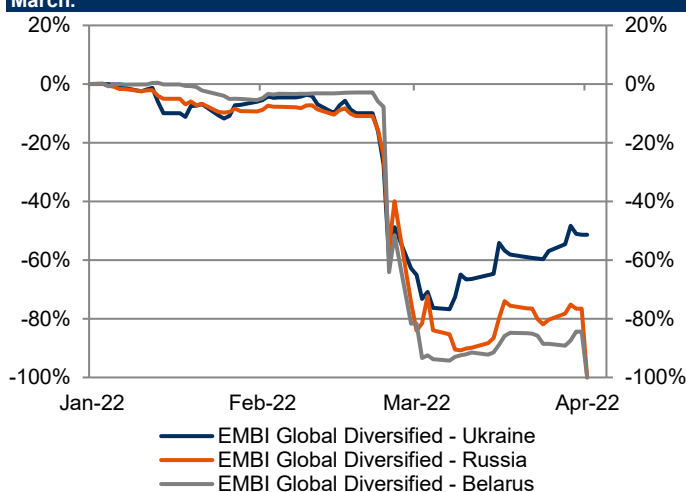
Main Points

- Russia's brutal war on Ukraine, inflation and the Fed's very hawkish turn were the defining elements of Q1.
- Benchmark emerging market bonds issued in USD returned minus 10.29% hedged to EUR as the YTM rose by 1.15bp to 6.44% and the credit spread widened by 31bp to 400bp.
- The fund returned minus 10.63%, which was 34bp lower than its benchmark.
- The war in Ukraine, inflation and hawkish central banks will shape Q2.

Benchmark emerging market bonds issued in USD returned minus 10.29% hedged to EUR as the YTM rose by 1.15bp to 6.44% and the credit spread widened by 31bp to 400bp.



Russia and Belarus was kicked out of the benchmark at the end of March. Ukrainian bonds were also hard hit, but staged a comeback in March.



Performance Review: Portfolio return

The fund returned minus 10.63%, which was 34bp lower than its benchmark. The fund's asset allocation was the primary source for the underperformance in Q1. In Q1 the underweight in Russia, the zero weight in Belarus, the overweights and asset allocations in Colombia, Ghana, Peru and South Africa as well as the overweights in Vietnam, Argentina and the Seychelles added to performance. However the overweight and asset allocation in Ukraine, the zero weights in Bahrain, Oman, China and Angola, the positioning in Kazakhstan as well as the asset allocation in Romania detracted from performance. For further portfolio return information please see pages 2 and 3.

Portfolio & Strategy Changes

The fund is slightly underweight in spread duration and slightly overweight 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 fund's investments are spread across around 40 countries and more than 100 issues. The largest overweights at the end of Q1 are now the Ivory Coast, Mexico and Colombia while China, the Philippines and now Oman are the largest underweights. Mexico and Colombia are new in the top three and have pushed Ukraine and Romania out. In terms of duration Mexico, Romania and Colombia are also the largest overweights while Malaysia, the Philippines and China are still the largest underweights. The fund has several large overweights in frontier countries, for instance the Ivory Coast, Ghana and the Seychelles.

During Q1 the most important change was that the fund went from underweight in Russia to a zero weight. In Ukraine the bonds were hit hard by the Russian invasion and this has reduced the overweight. We have added in Nigeria. The fund is no longer invested in Uruguay but has added significantly in Chile and has gone from underweight to overweight and it also added in Peru and Mexico. In Turkey the fund went from a small overweight to an underweight. In the Middle East we reduced the overweight in Qatar and added in the UAE to a neutral position. For a deeper dive into the portfolio changes please see the monthly portfolio reports.

Asset Class Review: EM hard currency markets

Russia's brutal war on Ukraine, inflation and the Fed's very hawkish turn were the defining elements of Q1. Benchmark emerging market bonds issued in USD returned minus 10.29% hedged to EUR as the YTM rose by 1.15bp to 6.44% and the credit spread widened by 31bp to 400bp. The credit spread widening was more pronounced in the HY part of the benchmark. The IG part saw a small spread widening. If Russia had not been excluded the widening would have been much bigger.

The return of the IG part took a big hit from the freefall of Russian bonds and the exclusion of Russia at the end of March. Belarus and Russia at benchmark level lost all their value due to the exclusion. Ukraine posted a negative return of 51.3% in Q1. It was a dark quarter in general and only a few countries delivered positive returns in Q1.

Outlook

2022 has started more brutally than most outside the Kremlin walls would have expected. Even before Russia's brutal invasion of Ukraine inflation had started to represent a challenge for central banks in USA and Europe. The massive increases in prices brought on by the war in Ukraine have only made the challenges more critical.

In USA the Fed proved to be more hawkish and faster than most had anticipated. The key interest rate has been lifted by 25bp but US rates were driven up in earnest by the signal of considerably higher interest rates. Over the next 12 months interest rate hikes of around 2.5 percentage points have currently been priced into the fixed income market. It would require several meetings with hikes of 50bp to achieve this. As we see it we are also nearing the top of what can be expected in the next 12 months. In the longer term any decision by the Fed to raise rates much more will hinge on developments in the US economy, inflation, the stability of the housing market and pay increases.

This brings us to the great element of uncertainty: Putin's brutal invasion of Ukraine. Aside from the horrendous human consequences for the people of Ukraine, there are the global economic implications. Sanctions on Russia have shut off a significant part of the country's oil exports while natural gas exports to Europe may be closed and could thereby have serious repercussions for Europe's economy. Furthermore Ukraine as well as Russia are major exporters of wheat and industrial metals, which has caused many commodity prices to go up, which results in inflation around the globe. In addition the high commodity prices are hitting consumers hard, which could lead to a decline in economic growth. The elevated prices of food products in particular could give rise to political unrest in EM countries, which we last saw in 2011 when rising wheat prices sparked the protests that led to the Arab Spring.

The sanctions on Russia and Belarus have had a major impact on the EM bond market because Russia has been kicked out of JPMorgan's EM bond index. For EM bonds issued in USD this means that Russia's weight has gone from more than 3% at the beginning of the year to now zero. The weighting of Belarus was 0.4%. Due to the exclusions it is slightly harder to compare yield spreads now with those at the beginning of the year but fundamentally yield spreads have widened slightly whereas US interest rates have increased considerably and are the main reason for the higher yield to maturity, which represented 6.44% at the end of Q1 with a yield spread of 400bp.

Sydinvest Emerging Markets Bonds: Quarterly performance attribution – Q1 2022

Performance – Q1 2022

	Fund	Benchmark	Performance
Current quarter	-10.63%	-10.29%	-0.34%
Year to date	-10.63%	-10.29%	-0.34%

Performance Attribution – Q1 2022

Country	Asset	Interaction	Residual	Cost	Total
	0.70%	-0.66%	-0.16%	-0.13%	-0.34%

	Investment	Cash	Cost	Total
	-0.60%	0.39%	-0.13%	-0.34%

Fund's historical performance

Year	Fund	Benchmark	Performance	Acc. perf.
2022 YTD	-10.63%	-10.29%	-0.34%	60.49%
2021	-3.36%	-2.82%	-0.54%	69.04%
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%

Top & Bottom Attribution Contributors

	Average OW/UW	Country	Asset	Interaction	Total	
Top 5 Contributors	-1.03%	Russia	2.26%	-0.86%	0.57%	1.98%
	-0.28%	Belarus	0.38%	0.00%	0.00%	0.38%
	3.02%	Colombia	0.16%	0.05%	0.06%	0.27%
	2.37%	Ghana	0.08%	0.06%	0.08%	0.21%
	1.53%	Vietnam	0.09%	0.01%	0.07%	0.16%
Bottom 5 Contributors	-0.02%	Kazakhstan	-0.01%	-0.15%	-0.06%	-0.21%
	-4.65%	China	-0.22%	0.00%	0.00%	-0.22%
	-2.90%	Oman	-0.25%	0.00%	0.00%	-0.25%
	-2.78%	Bahrain	-0.25%	0.00%	0.00%	-0.25%
	2.95%	Ukraine	-1.44%	-0.10%	-0.57%	-2.11%

Attribution from Top OW/UW

	Average OW/UW	Country	Asset	Interaction	Total	
5 Largest Overweights	3.27%	Ivory Coast	0.16%	-0.01%	-0.12%	0.03%
	3.02%	Colombia	0.16%	0.05%	0.06%	0.27%
	2.96%	Romania	0.06%	-0.05%	-0.13%	-0.13%
	2.95%	Ukraine	-1.44%	-0.10%	-0.57%	-2.11%
	2.85%	Mexico	0.11%	-0.05%	-0.03%	0.04%
5 Largest Underweights	-1.82%	Uruguay	-0.09%	-0.04%	0.01%	-0.11%
	-2.78%	Bahrain	-0.25%	0.00%	0.00%	-0.25%
	-2.90%	Oman	-0.25%	0.00%	0.00%	-0.25%
	-3.11%	Philippines	-0.07%	0.08%	-0.08%	-0.06%
	-4.65%	China	-0.22%	0.00%	0.00%	-0.22%

Portfolio Summary – As at 31 March 2022

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	Ivory Coast	3.52%	0.37%	3.15%	7.01	5.67	0.23
	Mexico	8.35%	5.22%	3.12%	10.63	9.12	0.41
	Colombia	5.77%	2.78%	2.98%	8.39	8.79	0.24
	Romania	4.14%	1.43%	2.71%	11.02	8.81	0.33
	Ghana	4.06%	1.43%	2.63%	4.77	5.01	0.12
	Egypt	4.67%	2.69%	1.98%	7.35	6.01	0.18
	Peru	4.92%	2.98%	1.95%	5.72	10.80	-0.04
	Argentina	3.08%	1.27%	1.81%	5.92	5.77	0.11
	Vietnam	1.79%	0.15%	1.64%	4.60	2.42	0.08
	South Africa	4.37%	2.73%	1.63%	6.00	6.71	0.08
10 Largest Underweights	Angola	0.00%	1.19%	-1.19%	-	6.19	-0.07
	Dominican Rep.	1.30%	2.76%	-1.46%	10.47	8.29	-0.09
	Malaysia	1.26%	2.84%	-1.57%	0.85	9.81	-0.27
	Hungary	0.00%	1.60%	-1.60%	-	6.87	-0.11
	Brazil	1.61%	3.24%	-1.63%	2.31	6.72	-0.18
	Uruguay	0.00%	2.39%	-2.39%	-	11.15	-0.27
	Bahrain	0.00%	2.92%	-2.92%	-	5.25	-0.15
	Philippines	0.29%	3.27%	-2.98%	15.32	8.73	-0.24
	Oman	0.00%	3.05%	-3.05%	-	5.96	-0.18
	China	0.00%	4.72%	-4.72%	-	5.56	-0.26

Rating distribution

Composite Rating	Weight
AAA	0.00%
AA	5.21%
A	10.68%
BBB	28.51%
BB	21.68%
B	20.20%
CCC and below	9.21%
Not rated	3.53%
Default	0.99%

Concentration risk

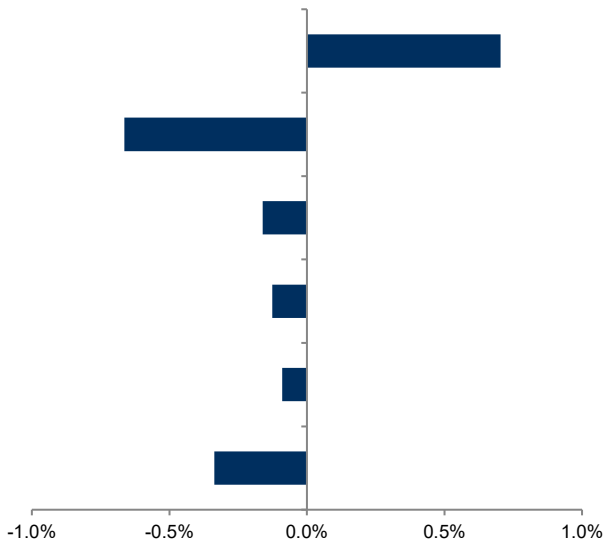
Country	Weight
Mexico	8.35%
Indonesia	5.77%
Colombia	5.77%
Peru	4.92%
Qatar	4.72%
Egypt	4.67%
South Africa	4.37%
United Arab Emirates	4.23%
Romania	4.14%
Ghana	4.06%

Duration distribution

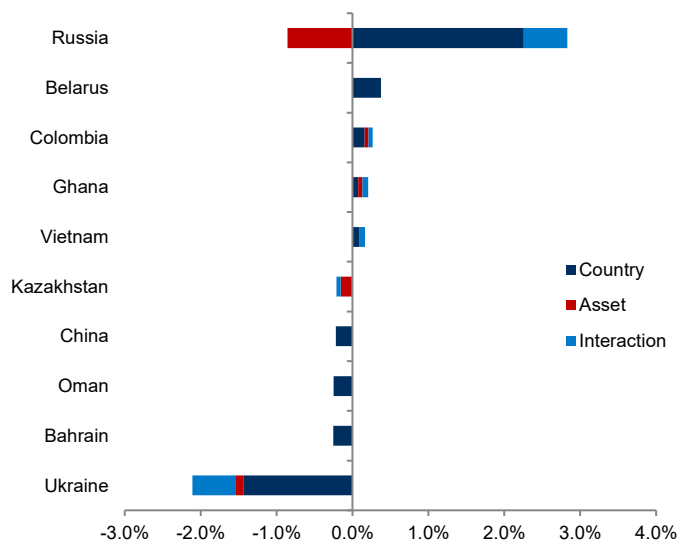
Dur. Years	Weight	Avg. Dur.
0-2	15.44%	0.81
2-5	17.96%	3.98
5-10	41.42%	7.52
10-15	21.72%	12.58
15+	3.47%	16.87
Total	100.00%	7.27

Sydinvest Emerging Markets Bonds: Quarterly performance attribution – Q1 2022

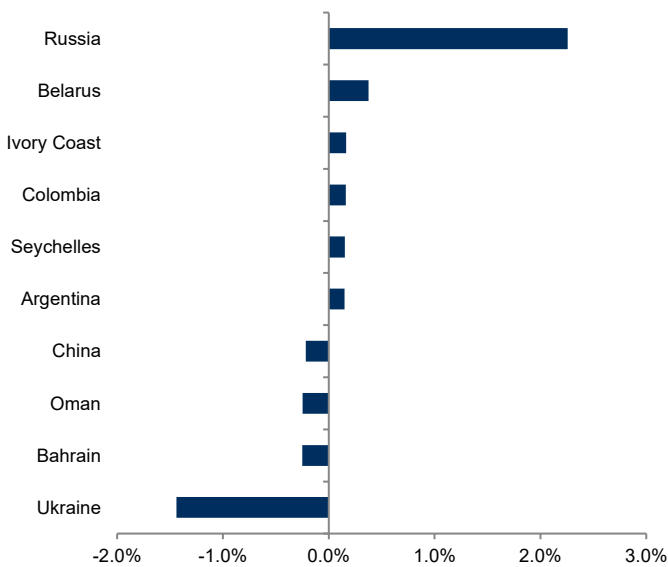
Portfolio: Overall Attribution



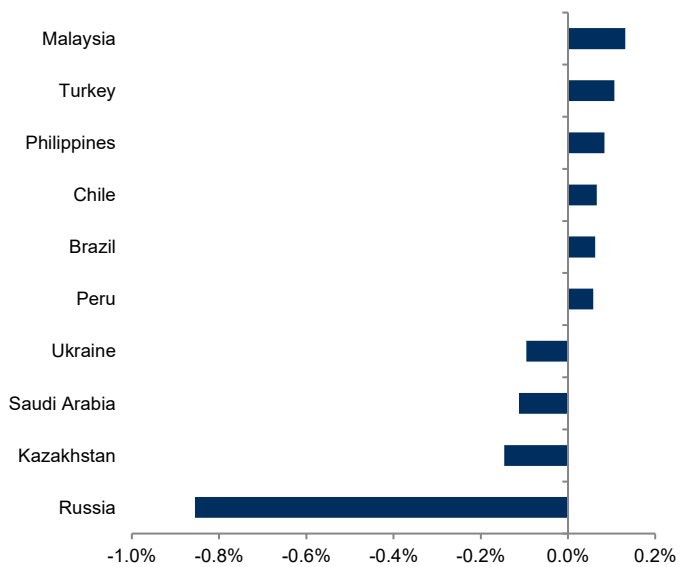
Portfolio: Split of Attribution most important contributors



Most Important Country Selection



Most Important Asset Selection



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