

# Sydinvest Emerging Markets Bonds I EUR Acc h

Quarterly Attribution Report - Q3 2021  
11 October 2021

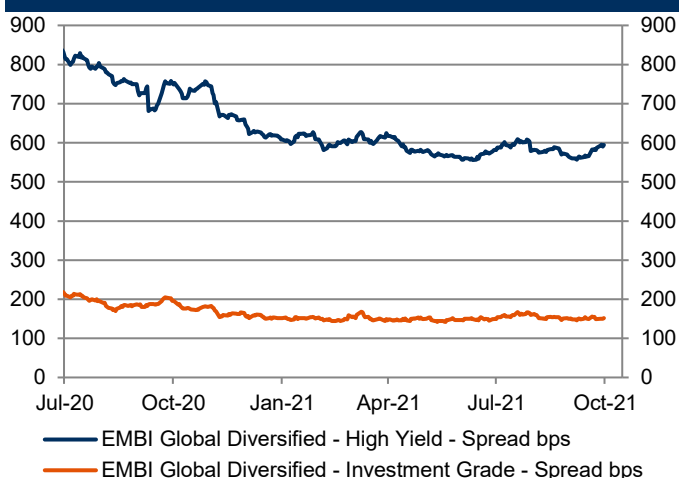
## Main Points

- China's growth worries and slightly higher short end UST rates provided headwinds for emerging market bonds in Q3.
- Benchmark emerging market bonds issued in USD returned minus 0.93% hedged to EUR as the YTM rose by 22bp to 5.13% and the credit spread widened by 17bp to 357bp.
- The fund returned minus 0.90%, which was 4bp better than its benchmark.
- China's growth worries and tapering by the Fed will most likely shape Q4.

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The credit spread widening primarily occurred in the High Yield part of the benchmark.



## Performance Review: Portfolio return

The fund returned minus 0.90%, which was 4bp better than its benchmark.

The fund's asset allocation was the primary source for the outperformance in Q3.

In Q3 the underweight in El Salvador, the overweight in Belize, the asset allocations in Brazil and Panama as well as the overweights in the Seychelles, Lebanon and Russia added to performance. However the overweight and asset allocation in Romania, the asset allocation in Ukraine, the overweights in Egypt and Colombia as well as the underweight in China detracted from performance. For further portfolio return information please see pages 2 and 3.

## Asset Class Review: EM hard currency markets

China's growth worries and slightly higher short end UST rates provided headwinds for emerging market bonds in Q3. Benchmark emerging market bonds issued in USD returned minus 0.93% hedged to EUR as the YTM rose by 22bp to 5.13% and the credit spread widened by 17bp to 357bp. The credit spread widening primarily occurred in the HY part of the benchmark.

Lebanon was the top performer in the benchmark as the country is getting closer to forming a government. Belize came in second as investors in the country's only sovereign bond voted for a restructuring of the bond. Zambia was third due to a landslide win in the presidential election for the opposition leader Hichilema. This made it impossible for the incumbent Lungu to dispute the result, thus removing a lot of political risk from Zambian bonds. Bonds from El Salvador were hit hard due to President Bukele's change of the constitution to allow him to serve another term.

## Portfolio & Strategy Changes

The fund started Q3 underweight in both spread duration and in Treasury duration and this remained the case throughout the quarter. 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 Q3 are still the Ivory Coast, Romania and Ukraine while China, the Philippines and Bahrain are still the largest underweights. In terms of duration Romania, the Ivory Coast and Mexico are still the largest overweights while Chile, the Philippines and China are the largest underweights. The fund has several large overweights in frontier countries, for instance the Ivory Coast, Ghana and the Seychelles. During Q3 the exposure to Africa vs benchmark was reduced. The reduction primarily happened in Angola, Egypt, Kenya and Nigeria. In the latter the benchmark weight rose due to new issues being included and in the rest we sold outright.

We added most in Eastern Europe during the quarter. Kazakhstan was the biggest addition as we closed the big underweight and are now neutral. In Latin America we also added exposure but here the addition was spread over a wide range of countries. For further portfolio information please see page 2.

## Outlook

The Delta variant stifled some of the vaccine optimism in Q3. Many EM countries have come a very long way, for instance Brazil's vaccination rate is higher than that of Germany. The Delta variant has especially hit the countries whose vaccine rollouts have lagged behind. USA is hit the hardest but even here the recovery is hard to suppress. On the other hand the recovery is being curbed to a substantial degree by the shortage of computer chips, which has hit several industries hard, including the car industry. In addition the global transportation industry is suffering from bottlenecks, which is delaying transport and making it more expensive, and for consumers this will mean higher price tags and a shortage of goods. As a result the temporary inflation cited by the Fed may drag on and become more permanent.

Inflation has continued to shoot up in most places and in many countries it has been years since similar increases in consumer prices have been seen. In USA, as more or less expected, this has meant that the Fed is now very close to announcing its plan for phasing out the bond-buying programme. We expect that the winding down will start before the new year and that the Fed's bond buying will end completely by around summer next year.

The greatest new risk factor to have emerged in Q3 is China's economy. It has been hit to a certain extent by lockdowns as result of the Delta variant, which has hit the service economy in particular and has resulted in weaker economic growth in Q3. On top of this uncertainty has arisen during the quarter concerning property developer Evergrande. Whatever the outcome of Evergrande's crisis, the crisis will put a damper on the housing sector, which is of great importance to the Chinese economy. The last negative factor for China's economy is the fact that the authorities' wish for cleaner air has led to a shortage of electricity, which has affected the industrial sector.

In September EM bonds issued in USD came under a bit of pressure as a result of a slightly more hawkish Fed coupled with the uncertainty surrounding the Chinese economy. In our assessment the yield spread of 357bp is a fair level given the current challenges and tailwinds. These include higher debt due to Covid-19 and stronger growth and resultant rising commodity prices. We see value in particular in selected B-rated credits as well as in selected BBB bonds issued in EUR while we see the least value in A-rated credits. In our opinion a slightly calmer fixed income market in the US will cause credit spreads to tighten.

# Sydney Emerging Markets Bonds: Quarterly performance attribution – Q3 2021

## Performance – Q3 2021

	Fund	Benchmark	Performance
Current quarter	-0.89%	-0.93%	0.04%
Year to date	-1.45%	-2.06%	0.61%

## Performance Attribution – Q3 2021

Country	Asset	Interaction	Residual	Cost	Total	
	-0.06%	0.34%	-0.15%	0.05%	-0.14%	0.04%

Investment	Cash	Cost	Total
0.15%	0.03%	-0.14%	0.04%

## Fund's historical performance

Year	Fund	Benchmark	Performance	Acc. perf.
2021 YTD	-1.45%	-2.06%	0.61%	74.70%
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%

## Top & Bottom Attribution Contributors

	Average OW/UW	Country	Asset	Interaction	Total	
Top 5 Contributors	-0.71%	El Salvador	0.11%	0.00%	0.00%	0.11%
	0.36%	Belize	0.09%	0.00%	0.01%	0.09%
	-1.07%	Brazil	0.02%	0.11%	-0.04%	0.09%
	1.34%	Seychelles	0.05%	0.00%	0.00%	0.05%
	0.06%	Panama	-0.01%	0.05%	0.00%	0.04%
Bottom 5 Contributors	0.61%	Colombia	-0.03%	-0.01%	0.00%	-0.04%
	-4.40%	China	-0.05%	0.00%	0.00%	-0.05%
	1.83%	Egypt	-0.05%	-0.01%	-0.01%	-0.07%
	2.75%	Ukraine	0.01%	-0.05%	-0.06%	-0.10%
	3.12%	Romania	-0.05%	-0.02%	-0.05%	-0.12%

## Attribution from Top OW/UW

	Average OW/UW	Country	Asset	Interaction	Total	
5 Largest Overweights	3.34%	Ivory Coast	0.07%	-0.01%	-0.05%	0.02%
	3.25%	Turkey	-0.01%	0.02%	0.02%	0.04%
	3.12%	Romania	-0.05%	-0.02%	-0.05%	-0.12%
	2.75%	Ukraine	0.01%	-0.05%	-0.06%	-0.10%
	2.27%	Russia	0.03%	0.01%	0.00%	0.04%
5 Largest Underweights	-1.99%	Chile	0.01%	0.05%	-0.03%	0.03%
	-2.06%	Kazakhstan	0.00%	-0.02%	0.00%	-0.01%
	-2.61%	Bahrain	-0.01%	0.00%	0.00%	-0.01%
	-3.07%	Philippines	0.01%	0.00%	0.00%	0.01%
	-4.40%	China	-0.05%	0.00%	0.00%	-0.05%

## Portfolio Summary – As at 30 September 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	Ivory Coast	3.67%	0.37%	3.30%	7.32	6.09	0.25
	Romania	4.25%	1.13%	3.12%	11.64	10.06	0.38
	Ukraine	5.55%	2.52%	3.03%	2.46	4.68	0.02
	Turkey	6.06%	3.52%	2.54%	4.10	5.40	0.06
	Ghana	3.73%	1.63%	2.10%	5.37	5.88	0.10
	Mexico	6.45%	4.83%	1.62%	10.70	9.29	0.24
	Argentina	2.68%	1.17%	1.51%	6.63	6.27	0.10
	Senegal	1.74%	0.28%	1.45%	4.62	9.54	0.05
	Seychelles	1.38%	0.00%	1.38%	1.86	-	0.03
	Egypt	3.89%	2.56%	1.33%	7.85	6.58	0.14
10 Largest Underweights	Pakistan	0.00%	1.08%	-1.08%	-	4.65	-0.05
	Angola	0.00%	1.11%	-1.11%	-	6.47	-0.07
	Malaysia	1.46%	2.67%	-1.20%	1.34	9.93	-0.25
	United Arab Emirates	2.52%	4.03%	-1.51%	11.83	9.01	-0.06
	Hungary	0.00%	1.57%	-1.57%	-	7.69	-0.12
	Chile	1.16%	2.93%	-1.77%	8.58	12.36	-0.26
	Oman	0.73%	2.69%	-1.96%	4.57	6.18	-0.13
	Bahrain	0.00%	2.61%	-2.61%	-	5.14	-0.13
	Philippines	0.00%	3.03%	-3.03%	-	9.04	-0.27
	China	0.00%	4.37%	-4.37%	-	5.80	-0.25

### Rating distribution

Composite Rating	Weight
AAA	0.00%
AA	5.37%
A	6.37%
BBB	30.48%
BB	21.09%
B	29.76%
CCC and below	6.64%
Not rated	0.00%
Default	0.00%

### Concentration risk

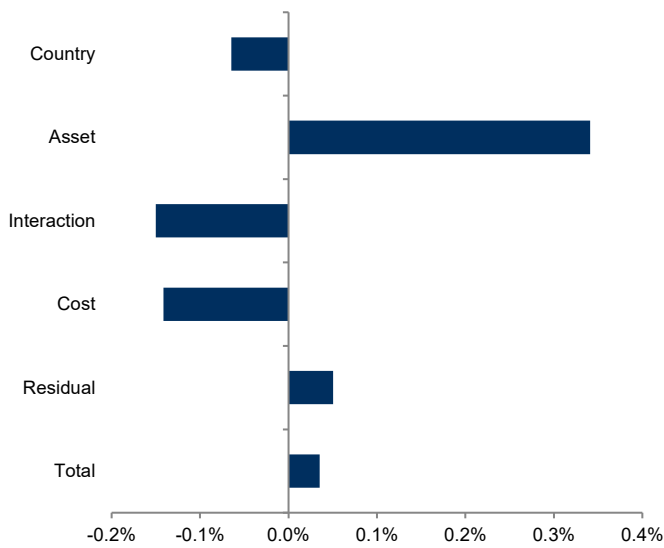
Country	Weight
Mexico	6.45%
Turkey	6.06%
Indonesia	5.66%
Ukraine	5.55%
Qatar	4.85%
Russia	4.57%
Romania	4.25%
Colombia	3.90%
Egypt	3.89%
Ghana	3.73%

### Duration distribution

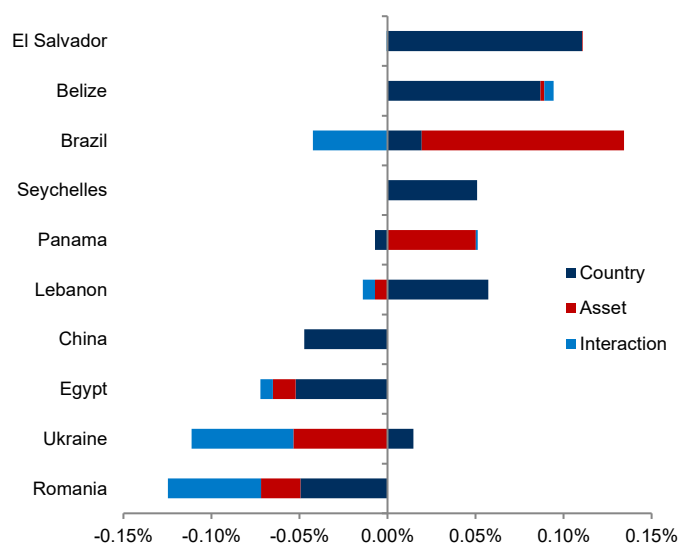
Dur. Years	Weight	Avg. Dur.
0-2	13.06%	0.90
2-5	17.72%	3.65
5-10	43.55%	7.03
10-15	17.05%	12.03
15+	8.62%	16.25
Total	100.00%	7.28

# Sydinvest Emerging Markets Bonds: Quarterly performance attribution – Q3 2021

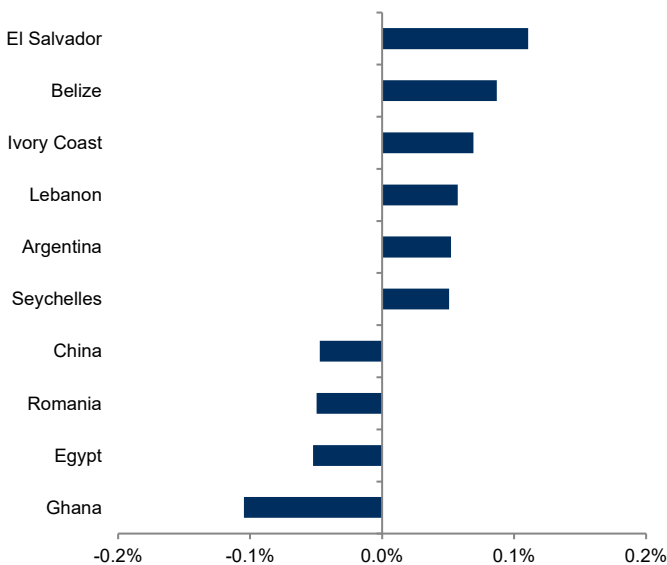
**Portfolio: Overall Attribution**



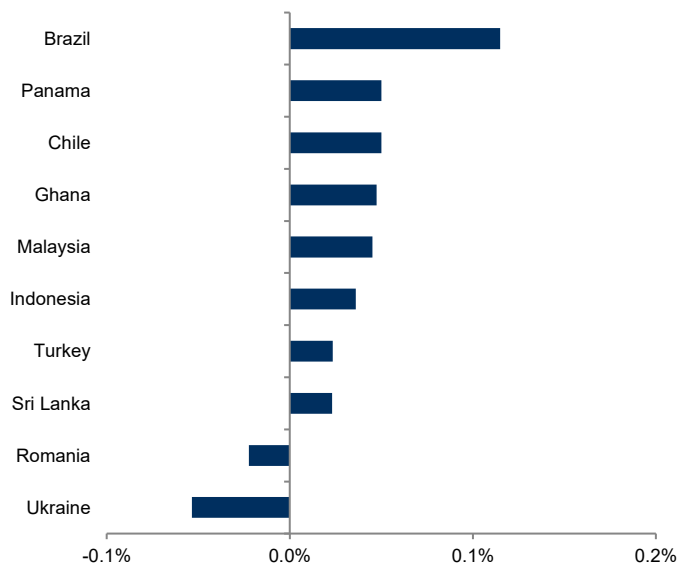
**Portfolio: Split of Attribution most important contributors**



**Most Important Country Selection**



**Most Important Asset Selection**



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