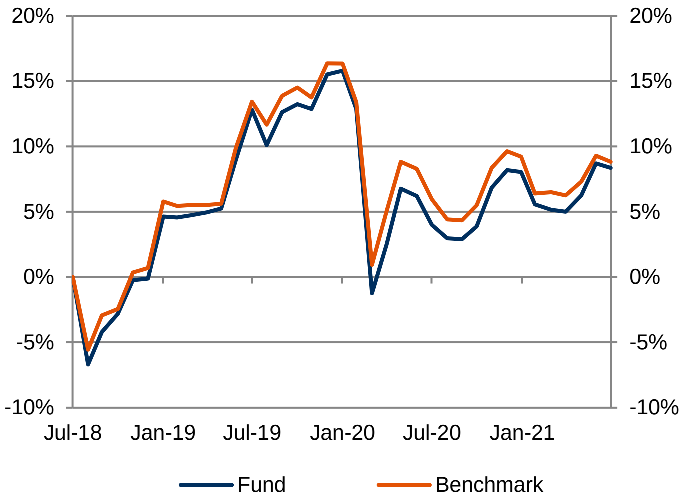
Sydinvest EM Local Currency Bonds I EUR Acc

Monthly Report - July 2021
4 August 2021

3 yrs. rolling return: Fund vs. JPMorgan GBI-EM GD (EUR unhed.), %



Returns net of fees, end of month

	Mth	YtD	-3 Mth	-6 Mth	-1 Yr
Fund	-0,33%	0,16%	3,18%	0,28%	4,18%
Benchmark	-0,42%	-0,73%	2,43%	-0,36%	2,72%
Performance	0,08%	0,88%	0,75%	0,64%	1,47%

Fund Profile & Objective

The fund aims to deliver long-term excess return to the JP Morgan GBI-EM 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 rates within countries and between issuers as well as local EM FX.

Fund performance summary

Sydinvest Emerging Markets Local Currency Bonds generated a return of minus 0.33% in July, which was 8bp better than the return of its benchmark.

In July the FX overweight and asset allocation in Mexico, the off-benchmark position in Egypt, the asset allocation in Brazil, the FX overweight in the Czech Republic as well as the underweight in Hungary added to performance. Conversely the asset allocations in Thailand and Indonesia as well as the overweight in Peru detracted from performance.

Portfolio strategy and changes

The fund is slightly underweight duration vs benchmark. Duration overweights and underweights still vary from country to country on the basis of the inflation outlook and pricing. The fund's asset allocation reflects the fact that in general the inflation outlook is mostly priced in. The benchmark has 20 countries while the fund has 22 as the fund is not invested in the Philippines and the Dominican Republic but has off-benchmark positions in Egypt, Ghana, Kazakhstan and Ukraine.

In July we added in Malaysia and Peru, the latter is now an overweight. We reduced in Indonesia by selling bonds outright and letting a forward contract expire. The fund is now slightly underweight in Indonesia. We also reduced in Mexico.

Key Figures

Ratios, end of month	July	Change	June
Fund Yield to maturity	5,77%	-0,14%	5,90%
Benchmark Yield to maturity	5,17%	-0,02%	5,20%
Fund Duration	4,87	-0,05	4,92
Benchmark Duration	5,24	-0,02	5,26
No. of countries	22	0	22
No. of issues	55	0	55
Gov. bonds, %	95,85%	-0,66%	96,52%
Quasi Sov., %	1,06%	-0,10%	1,17%
Cash, %	3,13%	0,74%	2,38%
Total AUM, mn EUR	49,30	-0,17	49,48
NAV	1.825,95	-6,12	1.832,07
Avg. rating S&P	BBB+		BBB
Beta, 3Yr.	1,07	0,00	1,07
Track. Error, 3 yr	1,61%	-0,01%	1,62%
Sharpe Ratio, 3 yr	0,29	-0,06	0,35
Info. Ratio, 3 yr	-0,09	0,08	-0,18
Jensen Alpha, 3 yr	-0,40%	0,19%	-0,59%
Volatility, 3 yr	10,89%	-0,01%	10,90%

Key Fund Information

Name of SICAV/FCP Fund	"Sydinvest HojrenteLande Lokal Valuta Akk"
Share class	" I EUR Acc" (Institutional / EUR)
Benchmark/Style	JP Morgan GBI-EM Global Diversified unhedged to EUR
Security Guidelines	Sovereign & quasi sovereign only
Duration Limits	Benchmark +/- 3 years
FX Exposure and Hedging	Emerging Market Local Currency Unhedged to EUR
Issuer limit/Unlisted Bond	10% /Maximum 10%
Financial Derivative Instruments Allowed	Domestic Currency Bonds. FX Forwards, NDFs, Deposits, Credit-Linked Notes.
Return Profile	Accumulation, no dividends.
ISIN CODE	DK0060646636
Country of domicile	Denmark
Bloomberg ticker / Reuters	NA
Initiation date	30.11.2005
Dealing day/NAV date	Daily
UCITS	UCITS IV
Total Expense Ratio	0.64% 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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Local Currency Markets – July

In July the spread of the Delta Covid-19 variant led to uncertainty about the economic growth comeback and thus to lower rates in the US and in Europe despite inflation numbers at multi-year highs. The FOMC did come a bit closer to announcing tapering but we are not there yet. Local rates fell in most of the benchmark countries. Peru and Brazil were the main outliers with rates significantly higher. Turkey and the Dominican Republic led the pack of countries which saw rates falling in July. The benchmark yield to maturity fell by 7bp to 4.92%. This resulted in a benchmark bond return before exchange rate fluctuations of 0.74%. EM currencies weakened by 1.15% against EUR and by 1.16% against a strong USD. Latin America led the weak FX performance with Peru, Brazil and Chile having the weakest currencies. Only Turkey, Indonesia, Mexico and China had stronger currencies. The total local benchmark return in EUR was minus 0.42% in July.

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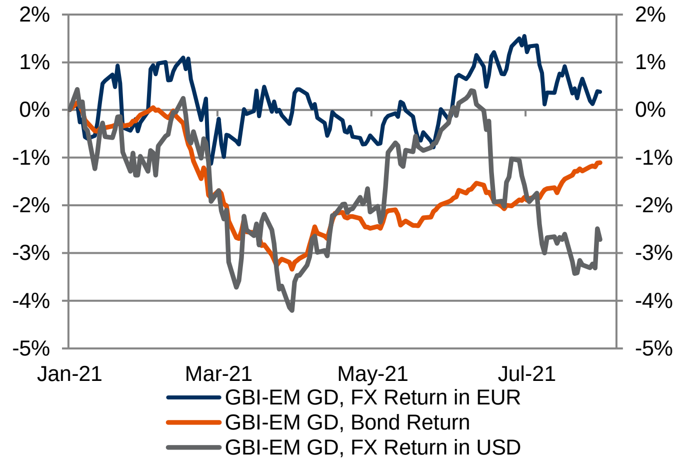
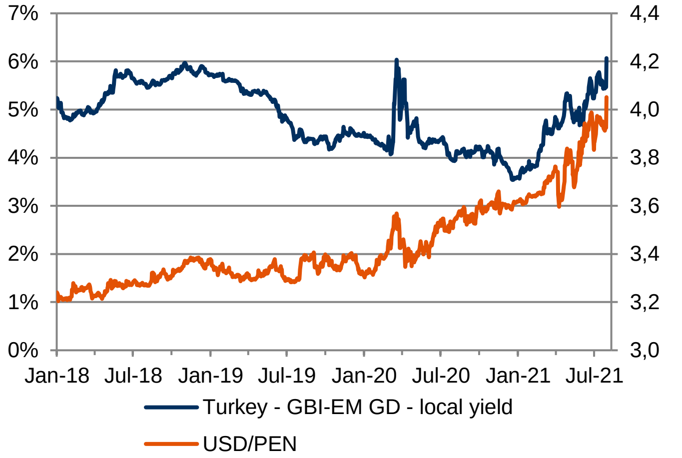


Peru's bonds continued to struggle and the FX dropped by over 5% against the US dollar as concerns remain about which policies the new president will attempt to introduce.



Asset Class Outlook

The story of the month must be the resurgent demand for US Treasuries as US government bond yields dropped once again. The US 10-year government bond yield dropped as much as 25 basis points to 1.22%. It is as if the whole panic about rising interest rates in the US and the knock-on effect on emerging markets through higher borrowing costs has once again faded into the background.

The positive US bond market was driven by Fed Chairman Powell in his latest remarks where he acknowledged that the economy had made progress in terms of hitting the committee's employment and inflation goals but nonetheless continued with the soft tone by underlining that the Fed sees it as too soon to scale back on the central bank's quantitative easing programme. We continue to expect a decision on this later in the year.

While China's bond and currency markets went largely unscathed, China's equity market drew some headlines in July as MSCI China dropped by over 14%. Whilst outside our mandate it nonetheless puts a spotlight on some of the risk drivers and highlights some concerns that investors in other markets are having. The regulatory tightening introduced by Chinese authorities has been most obvious in the Chinese property sector and we do not see this as a bad thing for bonds or the renminbi. In fact it can be seen as deflationary and thus good for bond yields in China. Other recent rumblings in China have related to its corporate bond market where defaults are increasing. Again this is not part of our potential portfolio of Chinese government bonds but we remain very confident that as part of China's increasingly dominant role and as a competitor to the West it needs to keep its currency and bond markets attractive and will continue to do so.

We acknowledge that the economic recovery in emerging markets remains slower than in developed markets, primarily due to lower vaccination rates in EM and less fiscal stimulus. This remains a problem but we see scope for more stimulus from the forthcoming IMF SDR payments to emerging markets and the as yet unfinalised plans to redistribute the developed market allocations to emerging markets later this year or early next year.

The now well-publicised riots in South Africa caused havoc and a great deal of uncertainty. The currency, the rand, weakened and bond prices rose over the month. The riots were initially triggered by the imprisonment of former President Zuma for 15 months for his refusal to testify to the State Capture Commission. In our view we see it is a positive development in terms of a strengthening of the rule of law that a former president can face justice. The riots were mostly contained to KwaZulu-Natal and Gauteng, the two largest provinces by population, and were also a reflection of the dissatisfaction of South Africans with the Covid situation, the lack of employment opportunities, education and basic services. Considering the hit to the economy which the disturbances have produced, South Africa's central bank left its main policy rate unchanged at 3.5%.

Peru finally provided us with closure on the long-delayed result of its June presidential election. Legal challenges by both leading candidates to nullify some votes were ruled out by the National Election Commission and left-leaning Castillo was declared the official winner. Peru's bonds continued to struggle and the FX dropped by over 5% against the US dollar as concerns remain about which policies the new president will attempt to introduce.

Zambia's currency decided it would jump on Jeff Bezos' spaceship in July as it rose over 15% versus the US dollar. In what is a good sign for frontier market liquidity, the kwacha has been boosted by several factors: a strong copper price (Zambia's main export), Zambia is also likely to receive USD 1.3bn (almost double its existing FX reserves) from the forthcoming IMF SDR allocation, and foreign portfolio investments are also returning. Things are therefore much brighter in Zambia but we remain somewhat cautious as the hopes for an IMF agreement hinge on the country's ability to produce fiscal savings as well as reach an agreement on its hard currency restructuring.

There was also good news out of Chile. The communist party candidate Daniel Jadue, who had been favourite in the polls to win the next presidential election, was defeated in the presidential primaries. This puts him out of the race and thus we avoid a worst-case scenario developing in normally very conservative, disciplined Chile.

Sydinvest EM Local Currency Bonds: Monthly performance attribution – July 2021

Performance – July

	Fund	Benchmark	Performance
Current month	-0,33%	-0,42%	0,08%
Year to date	0,16%	-0,73%	0,88%

Performance Attribution – July

Country	Asset	Interaction	FX Spot	Residual	Cost	Total
-0,04%	-0,15%	0,05%	0,30%	-0,03%	-0,05%	0,08%

Investment	Cash	Cost	Total
0,11%	0,03%	-0,05%	0,08%

Top & Bottom Attribution Contributors

		Average OW/UW	Country	Asset	Interaction	FX Spot	Total
Top 5 Contributors	Mexico	1,76%	-0,01%	0,02%	0,00%	0,02%	0,04%
	Egypt	3,04%	0,01%	0,00%	0,00%	0,03%	0,04%
	Brazil	-0,11%	0,00%	0,05%	0,00%	-0,01%	0,04%
	Czech Republic	3,44%	0,00%	0,00%	0,00%	0,04%	0,03%
	Hungary	-2,95%	0,01%	0,02%	-0,01%	0,02%	0,03%
Bottom 5 Contributors	Romania	-1,81%	0,02%	-0,03%	0,02%	-0,02%	-0,01%
	South Africa	-0,56%	0,00%	-0,01%	0,00%	-0,01%	-0,03%
	Indonesia	0,40%	0,01%	-0,04%	0,00%	0,01%	-0,03%
	Peru	0,31%	-0,02%	0,00%	0,00%	-0,02%	-0,04%
	Thailand	-3,75%	-0,03%	-0,14%	0,06%	0,05%	-0,06%

Fund's historical performance

Year	Fund	Benchmark	Performance	Acc. perf.
2021 YTD	0,16%	-0,73%	0,88%	-9,98%
2020	-6,34%	-5,79%	-0,55%	-11,68%
2019	15,65%	15,56%	0,09%	-11,26%
2018	-3,18%	-1,48%	-1,70%	-9,87%
2017	0,31%	1,20%	-0,89%	-7,03%
2016	13,95%	13,23%	0,73%	-5,42%
2015	-6,38%	-5,23%	-1,16%	-5,76%
2014	7,24%	7,37%	-0,12%	-4,10%
2013	-14,69%	-12,91%	-1,79%	-3,64%
2012	14,04%	14,96%	-0,93%	-0,54%

Attribution from Top OW/UW

		Average OW/UW	Country	Asset	Interaction	FX Spot	Total
5 Largest Overweights	Czech Republic	3,44%	0,00%	0,00%	0,00%	0,04%	0,03%
	Egypt	3,04%	0,01%	0,00%	0,00%	0,03%	0,04%
	Mexico	1,76%	-0,01%	0,02%	0,00%	0,02%	0,04%
	Ukraine	1,57%	-0,01%	0,00%	0,00%	0,03%	0,02%
	China	1,09%	0,01%	-0,02%	0,00%	0,01%	0,00%
5 Largest Underweights	Romania	-1,81%	0,02%	-0,03%	0,02%	-0,02%	-0,01%
	Malaysia	-2,43%	0,00%	0,00%	0,00%	0,01%	0,01%
	Hungary	-2,95%	0,01%	0,02%	-0,01%	0,02%	0,03%
	Poland	-3,42%	0,00%	0,01%	0,00%	0,00%	0,01%
	Thailand	-3,75%	-0,03%	-0,14%	0,06%	0,05%	-0,06%

Portfolio Summary – As at 30 July 2021

Ten largest over- and under weights in the portfolio

Country	Bond Weight	FX Weight	O/U FX Weight
Czech Republic	7,74%	7,78%	3,50%
Egypt	3,05%	3,05%	3,05%
Mexico	10,25%	10,72%	1,58%
Ukraine	1,55%	1,55%	1,55%
China	11,16%	11,16%	1,16%
Kazakhstan	1,04%	1,04%	1,04%
Ghana	1,03%	1,03%	1,03%
Peru	2,83%	2,83%	0,83%
Russia	8,13%	8,19%	0,75%
Serbia	0,95%	0,95%	0,64%
Indonesia	9,46%	9,46%	-0,28%
Brazil	7,86%	8,00%	-0,30%
South Africa	7,63%	7,49%	-0,46%
Colombia	3,33%	3,33%	-1,11%
Chile	0,99%	0,99%	-1,23%
Romania	1,32%	1,32%	-1,84%
Malaysia	5,16%	5,16%	-2,43%
Hungary	1,04%	1,04%	-2,87%
Poland	5,23%	5,31%	-3,30%
Thailand	4,76%	4,76%	-3,72%

Country	Duration, PF	Duration, BM	Rel. Duration Cont.
Russia	5,69	4,78	0,11
Mexico	5,40	4,93	0,10
Czech Republic	4,82	6,38	0,10
Peru	7,43	6,70	0,08
South Africa	7,55	6,55	0,06
Kazakhstan	3,39	0,00	0,04
Egypt	0,91	0,00	0,03
Ghana	2,41	0,00	0,02
Brazil	2,98	2,55	0,02
Serbia	3,96	5,96	0,02
Romania	8,10	3,54	-0,01
Philippines	0,00	7,11	-0,01
China	4,97	5,67	-0,01
Chile	9,58	6,53	-0,05
Colombia	5,03	5,08	-0,06
Indonesia	4,57	5,61	-0,11
Hungary	7,70	5,16	-0,12
Poland	3,94	4,18	-0,15
Malaysia	5,44	5,81	-0,16
Thailand	6,70	7,13	-0,29

Rating distribution

Composite Rating	
AAA	3,22%
AA	7,74%
A	28,46%
BBB	35,48%
BB	17,50%
B	7,60%
CCC and below	0,00%
Not rated	0,00%
Default	0,00%

Concentration risk

Country	Bond Exp.	Ccy Exp.
China	11,16%	11,16%
Mexico	10,25%	10,72%
Indonesia	9,46%	9,46%
Russia	8,13%	8,19%
Brazil	7,86%	8,00%
Czech Republic	7,74%	7,78%
South Africa	7,63%	7,49%
Poland	5,23%	5,31%
Malaysia	5,16%	5,16%
Thailand	4,76%	4,76%

Duration distribution

Dur. Years	Weight	Avg. Dur.
0-1	8,49%	0,23
1-3	14,95%	2,37
3-5	32,90%	4,47
5-7	20,09%	5,73
7-10	22,65%	7,84
10+	0,91%	10,88
Total	100,00%	4,87