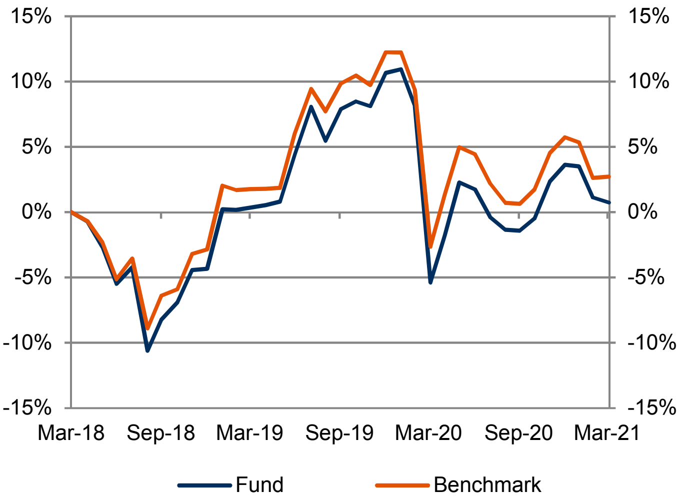
Sydinvest EM Local Currency Bonds I EUR Acc

Monthly Report - March 2021
9 April 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	-0.40%	-2.80%	-2.80%	2.19%	6.47%
Benchmark	0.11%	-2.85%	-2.85%	2.07%	5.52%
Performance	-0.50%	0.04%	0.04%	0.11%	0.95%

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 0.40% in March, which was 50bp lower than the return of its benchmark.

In March the asset allocation and FX overweight in Mexico, the off-benchmark positions in Egypt, Ukraine and Ghana as well as the asset allocation and FX underweight in Romania added to performance. Conversely the asset allocations in Thailand, South Africa, Indonesia and Brazil, the overweights in Turkey and Peru as well as the underweight in Chile detracted from performance.

Portfolio strategy and changes

The fund is neutral in 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 benign or priced in. The benchmark has 19 countries while the fund has 21 as the fund is not invested in the Philippines and the Dominican Republic but has off-benchmark positions in Egypt, Ghana, Ukraine and Serbia.

In March we removed the overweight in Turkey after Erdogan fired central bank governor Agbal. In Mexico we switched from a supranational bond back to Mbonos. In Indonesia we moved from a duration overweight to a slight underweight.

Key Figures

Ratios, end of month	March	Change	February
Fund Yield to maturity	5.81%	0.33%	5.48%
Benchmark Yield to maturity	5.18%	0.37%	4.81%
Fund Duration	4.97	-0.19	5.16
Benchmark Duration	5.29	0.01	5.28
No. of countries	21	0	21
No. of issues	49	-3	52
Gov. bonds, %	96.47%	0.56%	95.91%
Quasi Sov., %	1.24%	-0.01%	1.25%
Cash, %	2.36%	-0.53%	2.90%
Total AUM, mn EUR	47.87	-0.50	48.37
NAV	1,772.00	-7.03	1,779.02
Avg. rating S&P	BBB		BBB
Beta, 3Yr.	1.07	0.00	1.07
Track. Error, 3 yr	1.59%	0.01%	1.59%
Sharpe Ratio, 3 yr	0.06	0.01	0.05
Info. Ratio, 3 yr	-0.41	-0.01	-0.40
Jensen Alpha, 3 yr	-0.75%	-0.03%	-0.72%
Volatility, 3 yr	11.05%	-0.01%	11.06%

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 – March

In March UST rates kept rising and this continued to put pressure on EM bonds and to some extent EM FX. Oil prices came down a bit but this was due in part to the OPEC+ decision to raise production due to greater demand. Local rates rose in all but two of the benchmark countries and overall yield to maturity rose by a massive 29bp to 4.99%. This resulted in a benchmark bond return before exchange rate fluctuations of minus 1.37%. Rates rose the most in Turkey, Columbia and Brazil and only fell in Romania and the Dominican Republic. EM currencies weakened by 1.72% against USD but strengthened by 1.50% against EUR. South Africa, Mexico and the Dominican Republic had the strongest currencies while the lira from Turkey dropped the most. Turkey was by far the weakest benchmark country due to Erdogan unexpectedly 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 total local benchmark return in EUR was 0.11% in March.

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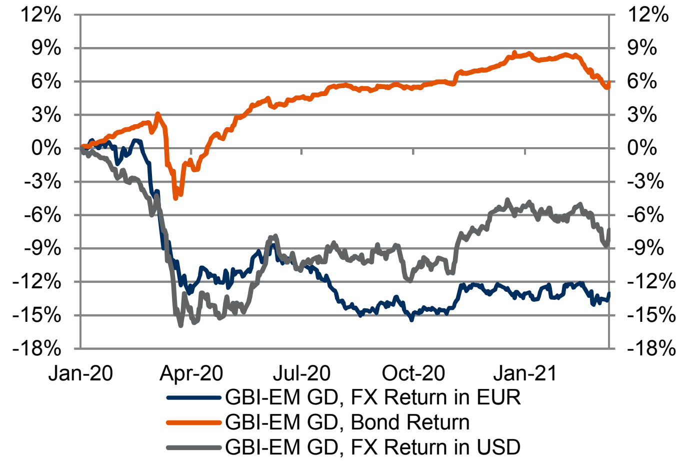

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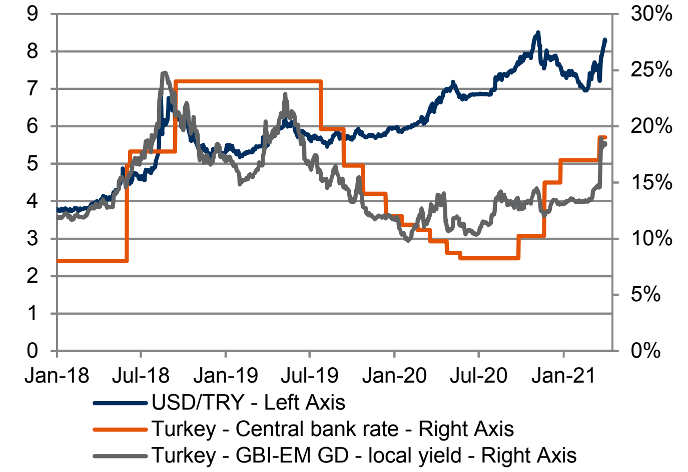

Asset Class Outlook

In a month when the US dollar rebounded by almost 3% versus its main trade weighted index, it was hard to find many emerging market currencies that were able to buck that trend. A few stand-out performers were the South African rand, the Mexican peso as well as the Dominican peso, which all rose by approximately 2% against the greenback. This is a noteworthy lift given the US dollar's general revival 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. Vis-a-vis emerging markets, local bond yields have risen generally in line with the increases in the US but at a time when risk appetite has wobbled, the riskier sovereigns have underperformed.

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 currencies like the Thai baht.

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.

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 awful for the Turkish lira and Turkish bond yields, with the latter spiking to unsustainable levels. We do not have any confidence in the lira currently and expect further depreciation.

Brazil's central bank became one of the first countries to resume hiking interest rates when it raised its main policy rate to 2.75% from 2%. Whilst the move was slightly more than anticipated, a normalisation of policy was expected given inflation is already running almost 1 percentage point above the 2021 target of 3.75%. Whilst the increase in commodity prices, for instance iron ore prices, helps the country's exports, the news that Lula might be eligible to run in the next presidential election might force President Bolsonaro to be less fiscally prudent than is necessary. Bolsonaro will need to shore up his popularity in the face of a popular contender and given his perceived mismanagement of the pandemic.

Peru will hold presidential elections on 11 April. We expect this to proceed to a second round in June as no candidate is anywhere near the 50% majority needed to secure a first-round victory. Calls to push back elections due to a surge in coronavirus cases were rejected in Peru but this is still a distinct possibility in Chile, where elections to its new Assembly are scheduled over the 11 April weekend. Chile has taken very strict lockdown measures compared to many Latin American peers.

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

Performance

	Fund	Benchmark	Performance
Current month	-0.40%	0.11%	-0.50%
Year to date	-2.80%	-2.85%	0.04%

Performance Attribution

Total	Country	Asset	Interaction	FX Spot	Cost	Residual
-0.50%	-0.05%	-0.44%	0.15%	0.15%	-0.05%	-0.25%

Total	Investment	Cash	Cost
-0.50%	-0.44%	-0.01%	-0.05%

Top & Bottom Attribution Contributors

		Average OW/UW	Country	Asset	Interaction	FX Spot	Total
Top 5 Contributors	Mexico	1.82%	-0.03%	0.06%	0.01%	0.07%	0.10%
	Egypt	2.12%	0.05%	0.00%	0.00%	0.03%	0.09%
	Ukraine	1.42%	0.04%	0.00%	0.00%	0.03%	0.07%
	Ghana	1.10%	0.03%	0.00%	0.00%	0.01%	0.04%
	Romania	-1.94%	-0.05%	0.09%	-0.05%	0.05%	0.03%
Bottom 5 Contributors	Chile	-1.36%	0.02%	-0.09%	0.05%	-0.03%	-0.06%
	Peru	1.11%	-0.03%	-0.02%	-0.01%	-0.01%	-0.07%
	Turkey	0.75%	-0.15%	0.03%	0.02%	0.00%	-0.10%
	South Africa	-0.35%	0.00%	-0.08%	0.00%	-0.02%	-0.10%
	Thailand	-3.58%	-0.01%	-0.24%	0.10%	0.03%	-0.12%

Fund's historical performance

Year	Fund	Benchmark	Performance	Acc. perf.
2021 YTD	-2.80%	-2.85%	0.04%	-11.27%
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	Egypt	2.12%	0.05%	0.00%	0.00%	0.03%	0.09%
	Mexico	1.82%	-0.03%	0.06%	0.01%	0.07%	0.10%
	Ukraine	1.42%	0.04%	0.00%	0.00%	0.03%	0.07%
	China	1.32%	0.02%	-0.03%	0.00%	0.00%	0.00%
	Peru	1.11%	-0.03%	-0.02%	-0.01%	-0.01%	-0.07%
5 Largest Underweights	Chile	-1.36%	0.02%	-0.09%	0.05%	-0.03%	-0.06%
	Hungary	-1.47%	-0.03%	-0.01%	0.00%	0.02%	-0.01%
	Romania	-1.94%	-0.05%	0.09%	-0.05%	0.05%	0.03%
	Thailand	-3.58%	-0.01%	-0.24%	0.10%	0.03%	-0.12%
	Malaysia	-3.95%	-0.02%	-0.02%	0.01%	0.03%	-0.01%

Portfolio Summary – As at 31 March 2021

Ten largest over- and under weights in the portfolio

Country	Bond Weight	FX Weight	O/U FX Weight
Egypt	2.35%	2.35%	2.35%
Mexico	11.47%	11.48%	2.05%
Ukraine	1.61%	1.61%	1.61%
China	11.41%	11.41%	1.41%
Peru	3.86%	3.86%	1.41%
Ghana	1.11%	1.11%	1.11%
Serbia	0.96%	0.96%	0.96%
Indonesia	10.46%	10.46%	0.81%
Russia	7.90%	7.90%	0.64%
Uruguay	0.43%	0.43%	0.32%
Dominican Rep.	0.00%	0.00%	-0.15%
Philippines	0.00%	0.00%	-0.15%
South Africa	7.52%	7.52%	-0.19%
Czech Republic	3.13%	3.15%	-0.98%
Colombia	3.87%	3.87%	-1.06%
Chile	1.17%	1.17%	-1.34%
Hungary	2.53%	2.53%	-1.48%
Romania	1.29%	1.30%	-1.89%
Thailand	4.88%	4.88%	-3.91%
Malaysia	3.28%	3.28%	-4.11%

Country	Duration, PF	Duration, BM	Rel. Duration Cont.
Mexico	5.33	5.06	0.13
Peru	8.02	7.28	0.13
Russia	5.90	4.76	0.12
South Africa	7.19	6.35	0.05
Serbia	4.27	0.00	0.04
China	5.19	5.62	0.03
Ghana	2.44	0.00	0.03
Brazil	3.11	2.80	0.02
Uruguay	5.93	3.02	0.02
Ukraine	1.10	0.00	0.02
Romania	8.47	3.63	-0.01
Philippines	0.00	7.31	-0.01
Hungary	6.75	5.16	-0.04
Poland	3.51	4.17	-0.04
Indonesia	4.79	5.70	-0.05
Colombia	5.00	5.02	-0.05
Chile	10.07	7.02	-0.06
Czech Republic	5.28	6.33	-0.10
Malaysia	5.30	5.73	-0.25
Thailand	5.95	7.03	-0.33

Rating distribution

Composite Rating	
AAA	1.62%
AA	3.13%
A	30.27%
BBB	41.21%
BB	16.67%
B	7.10%
CCC and below	0.00%
Not rated	0.00%
Default	0.00%

Concentration risk

Country	Bond Exp.	Ccy Exp.
Mexico	11.47%	11.48%
China	11.41%	11.41%
Indonesia	10.46%	10.46%
Poland	8.26%	8.27%
Brazil	8.20%	8.21%
Russia	7.90%	7.90%
South Africa	7.52%	7.52%
Thailand	4.88%	4.88%
Colombia	3.87%	3.87%
Peru	3.86%	3.86%

Duration distribution

Dur. Years	Weight	Avg. Dur.
0-1	7.19%	0.37
1-3	19.71%	2.51
3-5	19.06%	4.43
5-7	30.04%	5.61
7-10	21.90%	7.77
10+	2.09%	10.54
Total	100.00%	4.97