

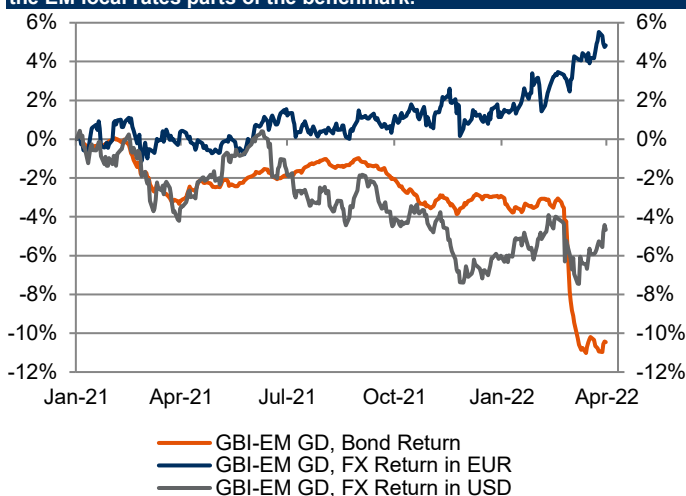
Sydinvest EM Local Currency Bonds I EUR Acc

Quarterly Attribution Report - Q1 2022 8 April 2022

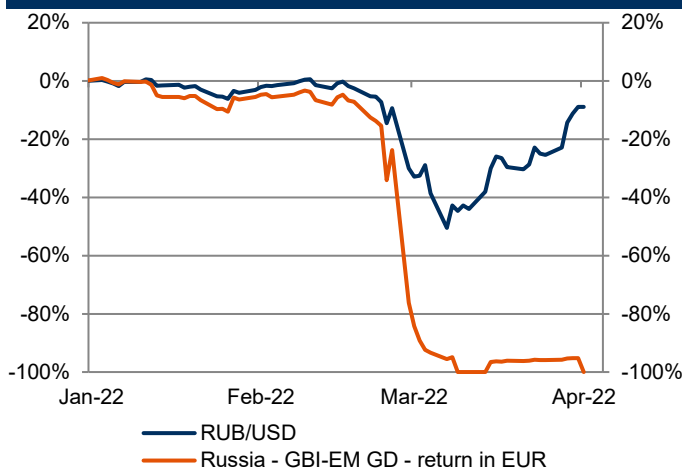
Main Points

- Russia's brutal war on Ukraine, inflation and the Fed's very hawkish turn were the defining elements of Q1.
- The fund returned minus 3.78%, which was 61bp better than its benchmark.
- Emerging market bonds issued in local currency returned minus 4.40% unhedged to EUR at benchmark level.
- The negative return came from the EM local rates parts of the benchmark.
- The war in Ukraine, inflation and hawkish central banks will shape Q2.

Emerging market bonds issued in local currency returned minus 4.40% unhedged to EUR at benchmark level. The negative return came from the EM local rates parts of the benchmark.



Russia's brutal war on Ukraine has resulted in a meltdown of Russian bonds and JPMorgan has kicked Russia out of the benchmark.



Performance Review: Portfolio return

The fund returned minus 3.78%, which was 61bp better than its benchmark.

At country level the overweights in Brazil, Egypt, China, Peru, Uruguay and the Czech Republic, the underweight in Thailand as well as the positioning in Russia contributed to performance. Conversely the off-benchmark positions in Kazakhstan, Ukraine and Ghana as well as the underweights in Malaysia, Romania and Colombia detracted from performance. For further portfolio information please see page 2 and 3.

Portfolio Strategy & Changes

The fund is underweight duration vs benchmark. Duration overweights and underweights still vary from country to country based on 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 19 countries while the fund has 19 as the fund is not invested in the Philippines, Serbia and the Dominican Republic but has off-benchmark positions in Ghana, Kazakhstan, Russia and Ukraine.

The biggest change in Q1 was Russia. The brutal invasion of Ukraine by Russia and the sanctions on Russia that followed have resulted in Russia being kicked out of the benchmark and the fund, we sold the remaining holding in Russia in the beginning of April. Apart from Russia the biggest change has been a large addition to Brazil. The country is now the second largest overweight in both FX and duration. The fund has gone from an overweight to an underweight in Egypt. In Asia the fund has reduced in China and added in Malaysia instead. In Eastern Europe the fund has gone to a zero weight position in both Romania and Turkey while the fund has added in Poland and Hungary. At the end of Q1 the largest FX overweights are the Czech Republic and Brazil whereas the largest underweights are Thailand and Romania. The largest duration overweights are Peru and Brazil whereas the largest underweights are Thailand and Malaysia.

Asset Class Review: EM local currency markets

Russia's brutal war on Ukraine, inflation and the Fed's very hawkish turn were the defining elements of Q1. Local currency EM bond rates rose by 52bp to 5.23% but the increase would have been bigger had Russia not been excluded. Local rates rose in all benchmark countries and rose the most in the Dominican Republic, Hungary and Poland. The benchmark bond return was minus 7.77% before currency fluctuations; the exclusion of Russia was a big part of that negative return. EM FX was the bright spot in Q1. At benchmark level EM FX strengthened by 3.65% vs EUR and 1.42% vs USD. The Brazilian real was the strongest followed by the South African rand. Apart from the Russian rouble the Egyptian pound was the weakest. The total local benchmark return was minus 4.40% unhedged to EUR 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.

While central banks in USA and Europe are just now beginning to pick up the pace EM central banks have been busy raising key interest rates during the past year. Developments have gone particularly fast in the last six months in light of mounting inflation. The fact that EM central banks have been quicker off the mark was positive in Q1 and meant that EM currencies, apart from Eastern European currencies, have performed well despite the challenges from higher interest rates in USA and Europe and the war in Ukraine. We believe that many central banks will continue to lift interest rates in the second quarter but we will begin to see the end of interest rate hikes in several countries. Brazil is a country where only two rate hikes are likely but then the central bank will also have raised interest rates by more than 10 percentage points since the rate-hiking cycle started last year.

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.

Sydivest EM Local Currency Bonds: Quarterly performance attribution – Q1 2022

Performance – Q1 2022

	Fund	Benchmark	Performance
Current quarter	-3.78%	-4.40%	0.61%
Year to date	-3.78%	-4.40%	0.61%

Performance Attribution – Q1 2022

Country	Asset	Interaction	FX Spot	Residual	Cost	Total	
	0.46%	1.84%	-0.99%	-0.64%	0.08%	-0.15%	0.61%

	Investment	Cash	Cost	Total
	0.63%	0.13%	-0.15%	0.61%

Fund's historical performance

Year	Fund	Benchmark	Performance	Acc. perf.
2022 YTD	-3.78%	-4.40%	0.61%	-6.65%
2021	0.01%	-1.82%	1.83%	-8.13%
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%

Top & Bottom Attribution Contributors

	Average OW/UW	Country	Asset	Interaction	FX Spot	Total	
Top 5 Contributors	Brazil	1.24%	0.15%	0.03%	0.00%	0.22%	0.40%
	Egypt	1.55%	0.20%	0.01%	-0.01%	0.18%	0.37%
	China	2.10%	0.21%	0.00%	0.01%	0.01%	0.22%
	Czech Republic	1.71%	0.09%	0.05%	0.04%	0.00%	0.18%
	Russia	0.40%	0.10%	0.13%	-0.06%	-0.02%	0.15%
Bottom 5 Contributors	Ghana	0.90%	0.11%	0.00%	0.00%	-0.18%	-0.07%
	Colombia	-0.79%	-0.01%	0.00%	0.00%	-0.07%	-0.08%
	Malaysia	-3.16%	-0.24%	0.01%	-0.01%	0.05%	-0.18%
	Ukraine	0.42%	-0.22%	0.00%	0.00%	-0.04%	-0.27%
	Kazakhstan	0.80%	-0.27%	0.00%	0.00%	-0.10%	-0.37%

Attribution from Top OW/UW

	Average OW/UW	Country	Asset	Interaction	FX Spot	Total	
5 Largest Overweights	China	2.10%	0.21%	0.00%	0.01%	0.01%	0.22%
	Czech Republic	1.71%	0.09%	0.05%	0.04%	0.00%	0.18%
	Egypt	1.55%	0.20%	0.01%	-0.01%	0.18%	0.37%
	Brazil	1.24%	0.15%	0.03%	0.00%	0.22%	0.40%
	Peru	1.23%	0.06%	0.00%	0.00%	0.07%	0.13%
5 Largest Underweights	Colombia	-0.79%	-0.01%	0.00%	0.00%	-0.07%	-0.08%
	Hungary	-1.50%	0.01%	-0.01%	0.00%	0.02%	0.02%
	Romania	-2.16%	-0.11%	-0.06%	0.05%	0.07%	-0.06%
	Malaysia	-3.16%	-0.24%	0.01%	-0.01%	0.05%	-0.18%
	Thailand	-4.01%	-0.20%	0.38%	-0.16%	0.06%	0.08%

Portfolio Summary – As at 31 March 2022

Ten largest over- and under weights in the portfolio

Country	Bond Weight	FX Weight	O/U FX Weight
Czech Republic	9.11%	7.54%	2.80%
Brazil	12.20%	12.21%	2.35%
Peru	3.62%	3.62%	1.27%
Chile	3.25%	3.25%	1.06%
Ghana	0.84%	0.84%	0.84%
Indonesia	10.81%	10.81%	0.81%
China	10.77%	10.77%	0.77%
Kazakhstan	0.59%	0.59%	0.59%
Uruguay	0.52%	0.52%	0.37%
Ukraine	0.15%	0.15%	0.15%
Colombia	4.35%	4.35%	-0.18%
Poland	5.09%	6.62%	-0.28%
Serbia	0.00%	0.00%	-0.28%
Egypt	1.13%	1.13%	-0.42%
South Africa	8.89%	8.97%	-0.66%
Turkey	0.00%	0.01%	-0.97%
Hungary	2.15%	2.17%	-1.17%
Malaysia	7.97%	7.97%	-1.89%
Romania	0.00%	0.04%	-3.33%
Thailand	5.58%	5.58%	-4.42%

Country	Duration, PF	Duration, BM	Rel. Duration Cont.
Peru	7.21	6.54	0.11
Brazil	2.57	2.14	0.10
Czech Republic	3.97	5.85	0.08
Chile	6.16	5.91	0.07
South Africa	7.31	6.46	0.03
Uruguay	5.93	5.49	0.02
Ghana	1.98	0.00	0.02
Kazakhstan	2.22	0.00	0.01
Russia	1.50	0.00	0.00
Ukraine	0.00	0.00	0.00
Turkey	0.00	2.17	-0.02
Colombia	4.22	4.98	-0.04
Hungary	5.01	5.01	-0.06
China	4.38	5.41	-0.07
Mexico	4.14	4.94	-0.08
Indonesia	4.28	5.54	-0.09
Poland	3.05	3.80	-0.11
Romania	0.00	3.34	-0.11
Malaysia	4.98	5.86	-0.18
Thailand	6.02	6.46	-0.31

Rating distribution

Composite Rating	
AAA	2.87%
AA	9.11%
A	28.28%
BBB	35.36%
BB	22.27%
B	1.97%
CCC and below	0.15%
Not rated	0.00%
Default	0.00%

Concentration risk

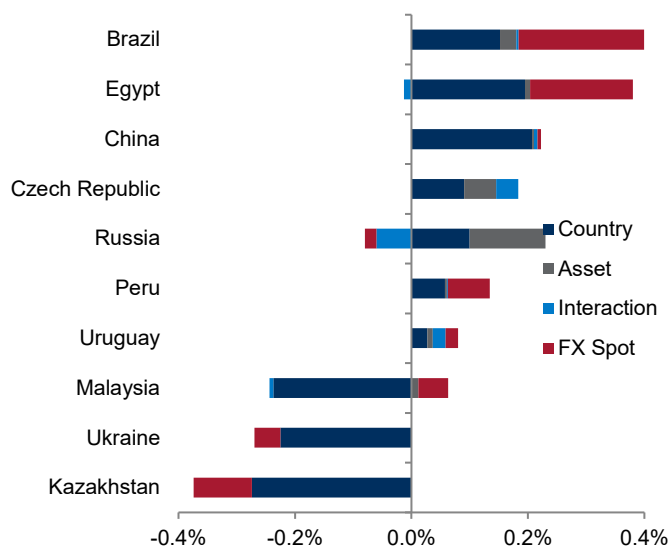
Country	Bond Exp.	Ccy Exp.
Brazil	12.20%	12.21%
Indonesia	10.81%	10.81%
China	10.77%	10.77%
Mexico	10.10%	10.10%
Czech Republic	9.11%	7.54%
South Africa	8.89%	8.97%
Malaysia	7.97%	7.97%
Poland	5.09%	6.62%
Thailand	5.58%	5.58%
Colombia	4.35%	4.35%

Duration distribution

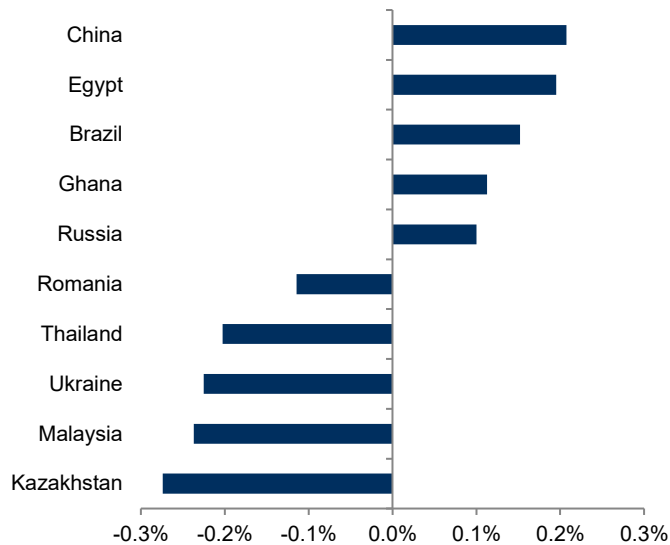
Dur. Years	Weight	Avg. Dur.
0-1	6.19%	0.38
1-3	17.19%	2.01
3-5	41.43%	4.02
5-7	18.97%	5.81
7-10	15.13%	7.69
10+	1.08%	10.34
Total	100.00%	4.41

Sydinvest EM Local Currency Bonds: Quarterly performance attribution – Q1 2022

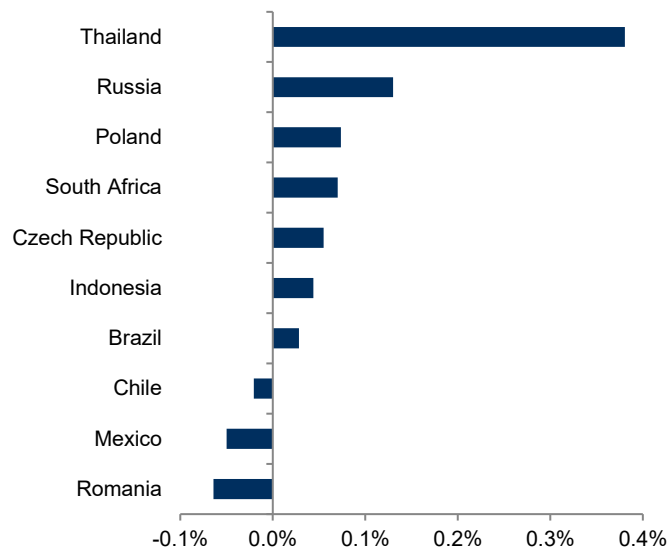
Portfolio: Split of Attribution most important contributors



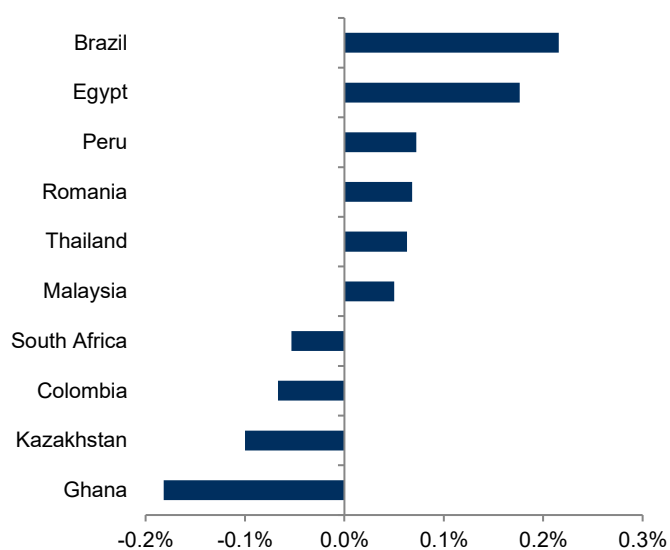
Most Important Country Selection



Most Important Asset Selection



Most Important FX Selection



Investor Relations Contact

Mick Olsen
 Institutional Sales Manager
 Syd Fund Management
 mick.olsen@sydinvest.dk
 Phone: +45 7437 3325

Investment Manager

Syd Fund Management A/S
 Peberlyk 4 · DK-6200 Aabenraa
 Denmark
 www.sydinvest-em.com

Portfolio Advisor

Sydbank Emerging Markets
 Peberlyk 4 · DK-6200 Aabenraa
 Denmark
 em@sydbank.dk
 www.sydbank.com

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