

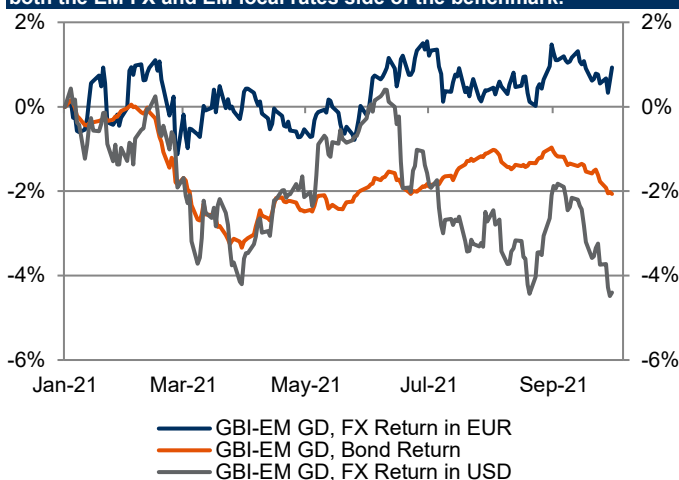
# Sydinvest EM Local Currency Bonds I EUR Acc

## Quarterly Attribution Report - Q3 2021 11 October 2021

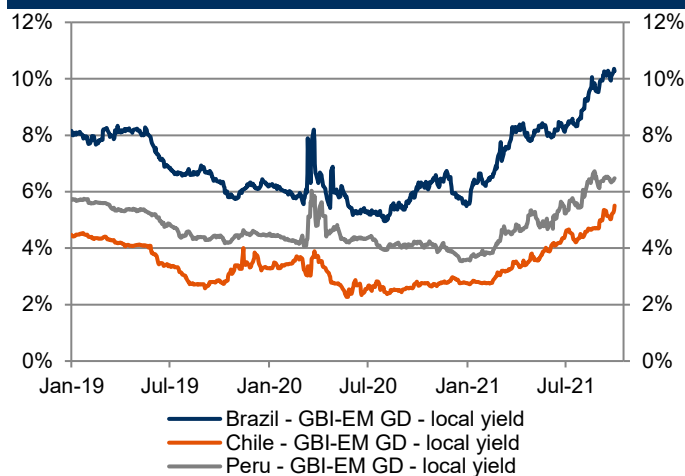
### Main Points

- China's growth worries and slightly higher short end UST rates provided headwinds for emerging market bonds in Q3.
- Emerging market bonds issued in local currency returned minus 0.85% unhedged to EUR at benchmark level.
- The negative return came from both the EM FX and EM local rates side of the benchmark.
- The fund returned minus 0.38%, which was 47bp above its benchmark.
- China's growth worries and tapering by the Fed will most likely shape Q4.

Emerging market bonds issued in local currency returned minus 0.85% unhedged to EUR at benchmark level. The negative return came from both the EM FX and EM local rates side of the benchmark.



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### Performance Review: Portfolio return

The fund returned minus 0.38%, which was 47bp above its benchmark. FX allocations and the country selection were the primary drivers of the outperformance whereas the asset selection was a drag on performance.

At country level the off-benchmark positions in Egypt, Kazakhstan and Ghana, the asset selection in Russia, the underweights in Chile and Hungary, the FX underweight in Thailand as well as the overweight in China contributed to performance. Conversely the FX underweight in Malaysia as well as the asset selection in South Africa and Colombia detracted from performance. For further portfolio information please see page 2.

### Asset Class Review: EM local currency markets

China's growth worries, inflation and slightly higher short end UST rates provided headwinds for emerging market bonds and FX in Q3. Local currency EM bond rates rose by 31bp to 5.30%. Rates rose the most in Brazil, Peru and Chile whereas rates only fell in the Dominican Republic, China and Indonesia. The benchmark bond return was minus 0.24% before currency fluctuations. EM FX was weaker versus EUR (0.6%) and USD (3.1%) in particular. Brazil, Peru and Chile also had the weakest currencies. In all three countries politics played a major part in the weak currencies. Uruguay, Indonesia and the Dominican Republic had the strongest currencies. The total local benchmark return was minus 0.85% unhedged to EUR in Q3.

### Portfolio Strategy & Changes

The fund is slightly 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 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.

During Q3 the fund went overweight in Peru from a roughly neutral position. Peru is now the largest duration overweight in the fund. In Indonesia the fund is now slightly underweight FX from an overweight position. We reduced the FX overweight in the Czech Republic and reduced the FX underweight in Poland. In Mexico we reduced both the FX and duration overweights. At the end of Q3 the largest FX overweights are Egypt, the Czech Republic and Ukraine whereas the largest underweights are Thailand, Hungary and Malaysia. As regards duration the fund is overall slightly underweight compared to its benchmark. The largest duration overweights are Peru, Russia and the Czech Republic whereas the largest underweights are Thailand, Malaysia and Poland.

### 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.

Worries about China's economy have impacted the price of iron ore which has dropped sharply after large increases last year and early this year. This is however one of few exceptions as most other commodity prices have remained relatively high or gone up, as in the case of oil. Gas and electricity prices have come under the spotlight to a certain extent after substantial increases in Europe, which will be reflected in consumer prices. This brings us back to inflation. In EM countries a long line of central banks have hiked interest rates. Brazil's central bank is the most hawkish and has raised its interest rate from 2.00% to 6.25% this year and will likely hike again at the remaining meetings this year. At its policy meeting at the end of September, the Czech central bank doubled its policy rate from 0.75% to 1.50% and the central bank in neighbouring Hungary is also busy tightening.

# Sydinvest EM Local Currency Bonds: Quarterly performance attribution – Q3 2021

## Performance – Q3 2021

	Fund	Benchmark	Performance
Current quarter	-0.38%	-0.85%	0.47%
Year to date	0.11%	-1.16%	1.26%

## Performance Attribution – Q3 2021

Country	Asset	Interaction	FX Spot	Residual	Cost	Total
	0.23%	-0.19%	0.17%	0.45%	-0.04%	0.47%

	Investment	Cash	Cost	Total
	0.58%	0.04%	-0.15%	0.47%

## Fund's historical performance

Year	Fund	Benchmark	Performance	Acc. perf.
2021 YTD	0.11%	-1.16%	1.26%	-9.24%
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%
2011	0.58%	1.53%	-0.95%	0.78%

## Top & Bottom Attribution Contributors

	Average OW/UW	Country	Asset	Interaction	FX Spot	Total
Top 5 Contributors	Egypt	2.90%	0.09%	0.00%	0.00%	0.07%
	Chile	-1.11%	0.05%	-0.06%	0.03%	0.09%
	Poland	-3.21%	0.02%	0.04%	-0.01%	0.05%
	Hungary	-2.89%	0.06%	-0.07%	0.05%	0.08%
	Kazakhstan	1.04%	0.03%	0.00%	0.00%	0.03%
Bottom 5 Contributors	Dominican Rep.	-0.14%	-0.01%	0.00%	0.00%	-0.01%
	Mexico	1.27%	0.00%	-0.01%	0.00%	0.00%
	Colombia	-1.08%	0.00%	-0.03%	0.01%	-0.01%
	South Africa	-0.51%	-0.01%	-0.01%	0.00%	-0.01%
	Malaysia	-2.41%	-0.01%	-0.01%	0.00%	-0.06%

## Attribution from Top OW/UW

	Average OW/UW	Country	Asset	Interaction	FX Spot	Total
5 Largest Overweights	Czech Republic	3.17%	-0.04%	0.01%	0.00%	0.04%
	Egypt	2.90%	0.09%	0.00%	0.00%	0.07%
	Ukraine	1.50%	-0.02%	0.00%	0.00%	0.05%
	Mexico	1.27%	0.00%	-0.01%	0.00%	0.00%
	China	1.11%	0.02%	-0.01%	0.00%	0.03%
5 Largest Underweights	Romania	-1.80%	0.04%	-0.11%	0.07%	0.00%
	Malaysia	-2.41%	-0.01%	-0.01%	0.00%	-0.06%
	Hungary	-2.89%	0.06%	-0.07%	0.05%	0.08%
	Poland	-3.21%	0.02%	0.04%	-0.01%	0.05%
	Thailand	-3.81%	-0.01%	-0.02%	0.01%	0.07%

## Portfolio Summary – As at 30 September 2021

### Ten largest over- and under weights in the portfolio

Country	Bond Weight	FX Weight	O/U FX Weight
Egypt	2.83%	2.83%	2.83%
Czech Republic	7.48%	6.05%	1.54%
Ukraine	1.48%	1.48%	1.48%
China	11.40%	11.40%	1.40%
Peru	3.08%	3.08%	1.19%
Kazakhstan	1.07%	1.07%	1.07%
Ghana	1.06%	1.06%	1.06%
Mexico	10.11%	10.12%	0.84%
Serbia	0.93%	0.93%	0.62%
Russia	8.21%	8.30%	0.57%
Dominican Rep.	0.00%	0.00%	-0.15%
South Africa	7.72%	7.81%	-0.20%
Indonesia	9.67%	9.67%	-0.33%
Chile	1.03%	1.03%	-0.91%
Colombia	3.66%	3.66%	-0.95%
Poland	5.07%	6.68%	-1.10%
Romania	1.19%	1.24%	-1.81%
Malaysia	5.37%	5.37%	-2.54%
Hungary	0.95%	0.98%	-2.81%
Thailand	4.80%	4.80%	-3.83%

Country	Duration, PF	Duration, BM	Rel. Duration Cont.
Peru	7.46	6.75	0.10
Russia	5.63	4.68	0.10
Czech Republic	4.67	6.01	0.08
Mexico	5.10	4.84	0.07
South Africa	7.33	6.49	0.05
Egypt	1.43	0.00	0.04
Brazil	2.80	2.33	0.04
Kazakhstan	3.23	0.00	0.03
Ghana	2.27	0.00	0.02
Uruguay	5.93	5.83	0.02
Philippines	0.00	6.97	-0.01
China	4.80	5.57	-0.01
Romania	8.12	3.72	-0.02
Chile	9.38	6.26	-0.02
Colombia	4.84	5.17	-0.06
Hungary	7.66	5.02	-0.12
Indonesia	4.50	5.62	-0.13
Poland	3.75	4.25	-0.14
Malaysia	5.38	6.09	-0.19
Thailand	6.57	6.84	-0.27

### Rating distribution

Composite Rating	
AAA	1.65%
AA	7.48%
A	25.32%
BBB	40.35%
BB	18.02%
B	7.18%
CCC and below	0.00%
Not rated	0.00%
Default	0.44%

### Concentration risk

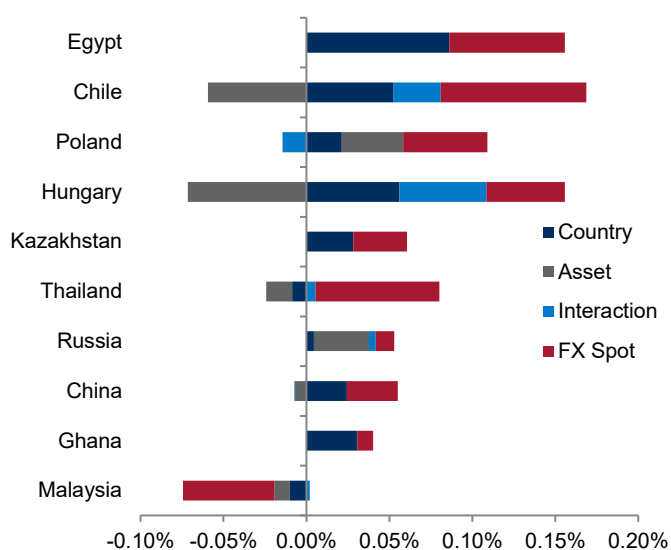
Country	Bond Exp.	Ccy Exp.
China	11.40%	11.40%
Mexico	10.11%	10.12%
Indonesia	9.67%	9.67%
Brazil	8.32%	8.33%
Russia	8.21%	8.30%
South Africa	7.72%	7.81%
Czech Republic	7.48%	6.05%
Poland	5.07%	6.68%
Malaysia	5.37%	5.37%
Thailand	4.80%	4.80%

### Duration distribution

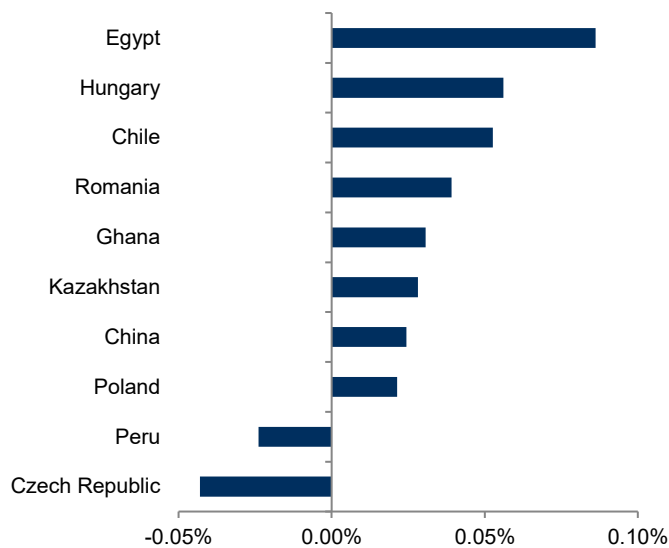
Dur. Years	Weight	Avg. Dur.
0-1	7.65%	0.40
1-3	15.14%	2.22
3-5	31.15%	4.25
5-7	27.26%	5.74
7-10	17.75%	8.01
10+	1.06%	10.67
Total	100.00%	4.79

# Sydinvest EM Local Currency Bonds: Quarterly performance attribution – Q3 2021

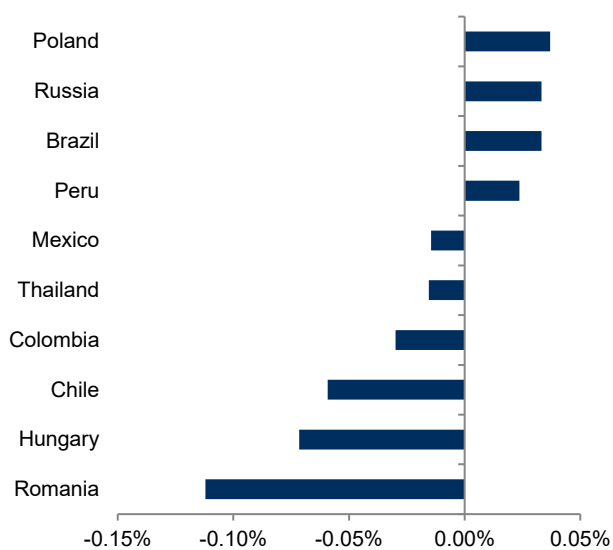
**Portfolio: Split of Attribution most important contributors**



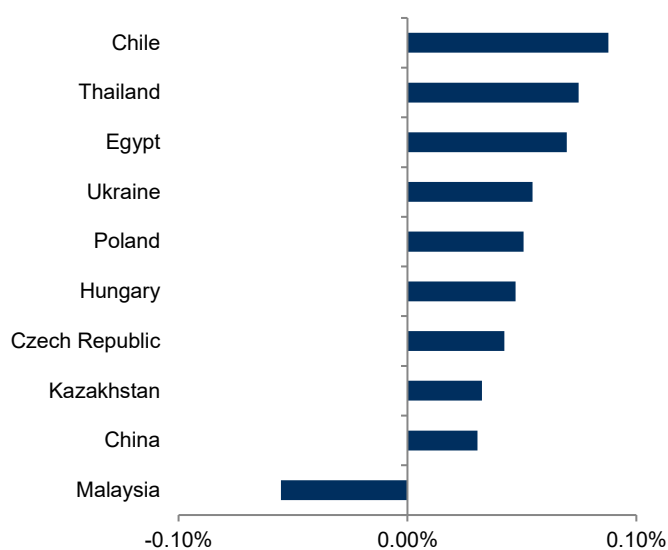
**Most Important Country Selection**



**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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