

Sydinvest EM Sustainable Blended Debt acc I USD

Quarterly Attribution Report - Q1 2022

8 April 2022

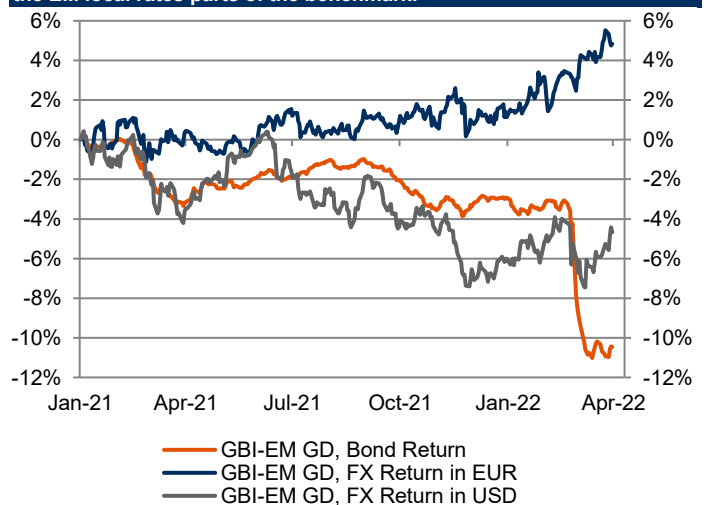
Main Points

- Russia's brutal war on Ukraine, inflation and the Fed's very hawkish turn were the defining elements of Q1.
- The fund yielded a return of minus 4.97% in Q1, which was 327bp better than its benchmark.
- The ESG exclusion of benchmark countries added 369bp to performance in Q1.
- In Q1 the hard currency benchmark posted a return of minus 10.02% while the local benchmark returned minus 6.46%.
- The war in Ukraine, inflation and hawkish central banks will shape Q2.

Benchmark emerging market bonds issued in USD returned minus 10.02% as the YTM rose by 1.15bp to 6.44% and the credit spread widened by 31bp to 400bp.



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.



Performance Review: Portfolio return

The fund yielded a return of minus 4.97% in Q1, which was 327bp better than its benchmark. The ESG exclusion of benchmark countries added 369bp to performance in Q1. The overall asset allocation was neutral throughout Q1. Performance was positive as regards the local currency part of the portfolio.

In hard currency the ESG related zero weights in Russia, Belarus and Pakistan, the overweights and asset allocations in Colombia, Senegal, Ghana, Chile, Peru, South Africa and Paraguay as well as the overweights in Egypt, Mexico, Vietnam, the Seychelles, Argentina and Ecuador added to performance. However the ESG related zero weights in Turkey, China, the UAE, Saudi Arabia, Angola and Nigeria, the overweight and asset allocation in Ukraine, the positioning in Kazakhstan and Qatar, the zero weights in Oman and Bahrain as well as the asset allocations in Romania and Brazil detracted from performance.

In local currency the ESG related zero weight in Russia, the asset allocation in Poland, the overweights in Brazil, South Africa, Peru, Mexico, the Philippines, Malaysia and the Czech Republic as well as the FX overweight in Colombia added to performance. Conversely the ESG related underweights in China and Thailand as well as the overweights in Kazakhstan and Egypt detracted from performance. For further portfolio information please see pages 2 and 3.

Portfolio Strategy & Changes.

The fund had a neutral allocation between hard currency and local currency throughout Q1. In hard currency the the largest overweights at the end of Q1 are Chile, Mexico and Ghana as we added in Chile and Ghana. In contrast Qatar, Turkey and Oman are the largest non-ESG related underweights. In terms of duration Chile, Mexico and Romania are the largest overweights. The fund has several large overweights in frontier countries, for instance Ghana, Senegal and the Seychelles. During Q1 the exposure to Latin America was increased. In Latam we added in Chile's new ESG bonds and the country is now the fund's largest overweight. We also added to the overweight in Colombia where the fund now has has one of the bigger overweights in both weight and duration terms. In Latam we also added in Peru and Mexico while we reduced in Uruguay. In Asia we added in Indonesia and added a bit in Vietnam. In Ukraine the bonds were hit hard by the Russian invasion and this has reduced the overweight.

In local currency 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. The fund was not invested in Russia so the Russian local bond market has gone from being a big underweight to now of no importance. The largest FX overweights are Kazakhstan, Mexico and the Philippines whereas the largest active (non-ESG related) underweights are Turkey, Romania and Hungary.

Asset Class Review

Russia's brutal war on Ukraine, inflation and the Fed's very hawkish turn were the defining elements of Q1. Benchmark EM bonds issued in USD returned minus 10.02% as the YTM rose by 1.15bp to 6.44% and the credit spread widened by 31bp to 400bp.

Local currency EM bond rates rose by 52bp to 5.23% but the increase would have been bigger had Russia not been excluded. 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.

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. 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.

Sydinvest EM Sustainable Blended Debt: Performance attribution – Q1 2022

Performance – Q1 2022

	Fund	Benchmark	Performance
Current quarter	-4.97%	-8.24%	3.27%
Year to date	-4.97%	-8.24%	3.27%

Performance Attribution – Q1 2022

	Avg Wgt.	Fund	Benchmark	Performance
Allocation				0.00%
External Debt	50.00%	-4.92%	-5.13%	0.25%
Local Debt	50.00%	-0.05%	-3.11%	3.01%
Total	100.00%	-4.97%	-8.24%	3.27%

Performance Attribution: Break-down

	Country	Asset	Interaction	FX Spot	Perf.
HC Excluded Countries	1.11%	0.00%	0.00%	0.00%	1.11%
HC Excluded Quasi-Sovereigns	-0.10%	0.00%	0.00%	0.00%	-0.10%
LC Excluded Countries	2.00%	0.00%	0.00%	0.68%	2.68%
Total, Excluded	3.01%	0.00%	0.00%	0.68%	3.69%
HC, non-Excluded	-0.66%	-0.03%	-0.04%	0.05%	-0.68%
LC, non-Excluded	0.44%	0.14%	0.03%	-0.21%	0.40%
Total, non-Excl.	-0.22%	0.11%	-0.01%	-0.16%	-0.28%
Asset Class Allocation	0.00%	0.00%	0.00%	0.00%	0.00%
Cost	-0.14%	0.00%	0.00%	0.00%	-0.14%
Strategy Total Performance	2.64%	0.11%	-0.01%	0.52%	3.27%

*) The Strategy's total performance is a combination of the ESG excluded (mandatory underweights) as well as active over- and underweights relative to the benchmark.

Hard Currency: Active Strategies in non-excluded Countries*

	Average OW/UW	Country	Asset	Interaction	FX Spot	Total	
Top 5 Contributors	1.66%	Colombia	0.11%	0.02%	0.03%	0.00%	0.16%
	1.96%	Senegal	0.04%	0.01%	0.11%	0.00%	0.15%
	1.61%	Peru	0.09%	0.03%	0.03%	0.00%	0.15%
	1.67%	Ghana	0.03%	0.03%	0.07%	0.00%	0.13%
	2.08%	South Africa	0.11%	0.01%	0.01%	0.00%	0.13%
Bottom 5 Contributors	1.72%	Romania	0.04%	-0.03%	-0.09%	0.00%	-0.08%
	0.49%	Kazakhstan	0.00%	-0.05%	-0.04%	0.00%	-0.09%
	-1.22%	Bahrain	-0.12%	0.00%	0.00%	0.00%	-0.12%
	-1.41%	Oman	-0.13%	0.00%	0.00%	0.00%	-0.13%
	1.85%	Ukraine	-0.96%	-0.02%	-0.26%	0.00%	-1.24%

Local Currency: Active Strategies in non-excluded Countries*

	Average OW/UW	Country	Asset	Interaction	FX Spot	Total	
Top 5 Contributors	1.08%	Brazil	0.10%	0.01%	0.00%	0.15%	0.27%
	0.90%	South Africa	0.08%	0.05%	0.01%	0.04%	0.18%
	0.85%	Peru	0.04%	0.00%	0.00%	0.05%	0.09%
	1.57%	Mexico	0.10%	-0.02%	-0.01%	0.02%	0.09%
	0.69%	Colombia	0.02%	0.01%	0.00%	0.05%	0.08%
Bottom 5 Contributors	0.10%	Ukraine	0.00%	0.00%	0.00%	-0.02%	-0.02%
	0.39%	Ghana	0.05%	0.00%	0.00%	-0.08%	-0.03%
	-1.02%	Romania	-0.05%	-0.03%	0.02%	0.03%	-0.03%
	0.83%	Egypt	0.05%	-0.01%	0.00%	-0.09%	-0.04%
	2.13%	Kazakhstan	-0.36%	0.00%	0.00%	-0.23%	-0.60%

Portfolio Summary – As at 31 March 2022

Five largest over- and under weights in the portfolio for Hard Currency (HC) Bonds

	Country	Bond Weight	O/U Weight	FX Weight	O/U FX Weight	Duration, PF	Duration, BM	Rel. Duration Cont.
5 Largest Overweights	Colombia	3.54%	2.15%	-	-	9.61	8.79	0.22
	Chile	3.58%	1.97%	-	-	11.24	11.79	0.21
	Senegal	2.05%	1.91%	-	-	4.26	8.87	0.07
	Peru	3.35%	1.87%	-	-	6.66	10.80	0.06
	South Africa	3.17%	1.81%	-	-	6.22	6.71	0.11
5 Largest Underweights	Turkey*	0.00%	-1.91%	-	-	0.00	5.06	-0.10
	Qatar	0.00%	-1.97%	-	-	0.00	10.20	-0.20
	Saudi Arabia*	0.00%	-2.08%	-	-	0.00	9.43	-0.20
	United Arab Emirates'	0.00%	-2.15%	-	-	0.00	9.06	-0.19
	China*	0.00%	-2.36%	-	-	0.00	5.56	-0.13

*) The country is excluded from the fund due to the ESG process. Please refer to the last page.

Five largest over- and under weights in the portfolio for Local Currency (LC) Bonds

	Country	Bond Weight	O/U Weight	FX Weight	O/U FX Weight	Duration, PF	Duration, BM	Rel. Duration Cont.
5 Largest Overweights	Czech Republic	4.58%	2.21%	3.82%	1.45%	3.96	5.85	0.04
	Kazakhstan	1.67%	1.67%	1.67%	1.67%	1.57	0.00	0.03
	Mexico	6.59%	1.59%	6.60%	1.60%	4.08	4.94	0.02
	Philippines	1.53%	1.47%	1.53%	1.47%	0.88	6.24	0.01
	Brazil	6.08%	1.15%	6.08%	1.15%	2.54	2.14	0.05
5 Largest Underweights	Turkey*	0.00%	-0.49%	0.00%	-0.49%	0.00	2.17	-0.01
	Hungary	0.96%	-0.71%	0.98%	-0.69%	5.35	5.01	-0.03
	Romania	0.00%	-1.69%	0.02%	-1.67%	0.00	3.34	-0.06
	China*	0.00%	-5.00%	0.00%	-5.00%	0.00	5.41	-0.27
	Thailand*	0.00%	-5.00%	0.00%	-5.00%	0.00	6.46	-0.32

*) The country is excluded from the fund due to the ESG process. Please refer to the last page.

Rating distribution

Composite Rating	
AAA	6.38%
AA	4.58%
A	14.89%
BBB	35.40%
BB	23.70%
B	11.40%
CCC and below	3.66%
Not rated	0.00%
Default	0.00%

Concentration risk

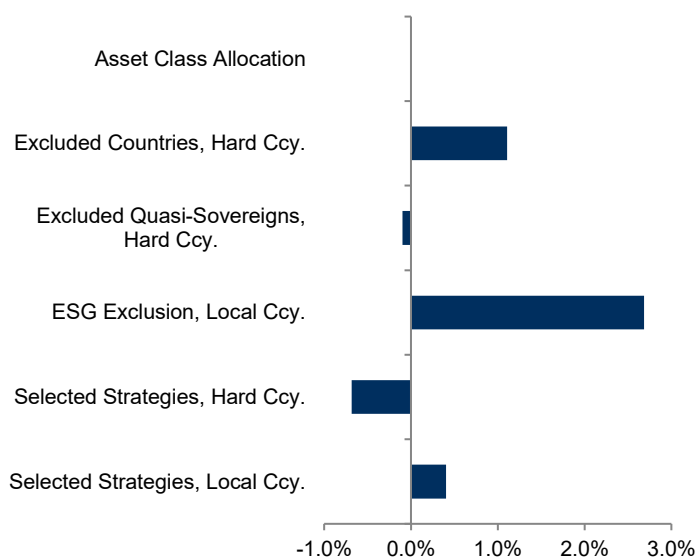
Country	Total Bond	HC Bond	LC Bond	Ccy Exp.
Mexico	10.88%	4.29%	6.59%	6.60%
Indonesia	9.23%	3.75%	5.48%	5.48%
South Africa	8.74%	3.17%	5.57%	5.60%
Brazil	7.23%	1.15%	6.08%	6.08%
Colombia	6.22%	3.54%	2.67%	2.67%
Malaysia	5.96%	0.00%	5.96%	5.96%
Chile	5.45%	3.58%	1.87%	1.87%
Peru	5.37%	3.35%	2.01%	2.01%
Czech Republic	4.58%	0.00%	4.58%	3.82%

Duration distribution

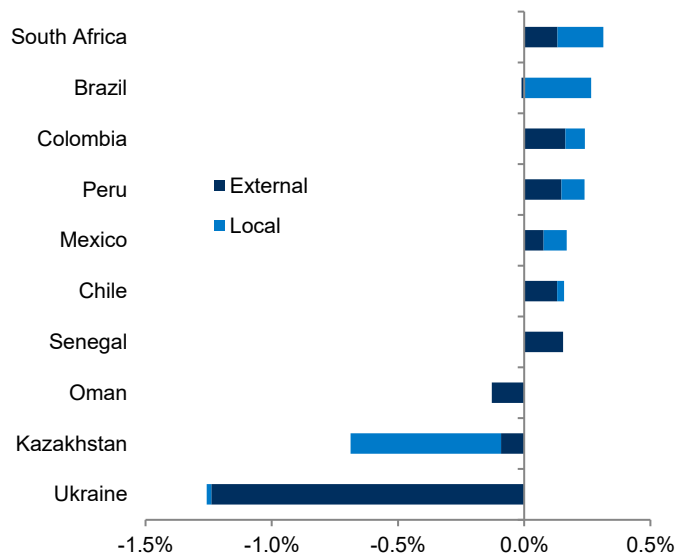
Dur. Years	Weight	Avg. Dur.
0-2	15.35%	0.91
2-5	32.04%	3.56
5-10	37.94%	7.15
10-15	12.03%	11.62
15+	2.64%	16.14
Total	100.00%	5.82

Sydinvest EM Sustainable Blended Debt: Performance attribution – Q1 2022

Attribution: Break-down on ESG and Asset Class

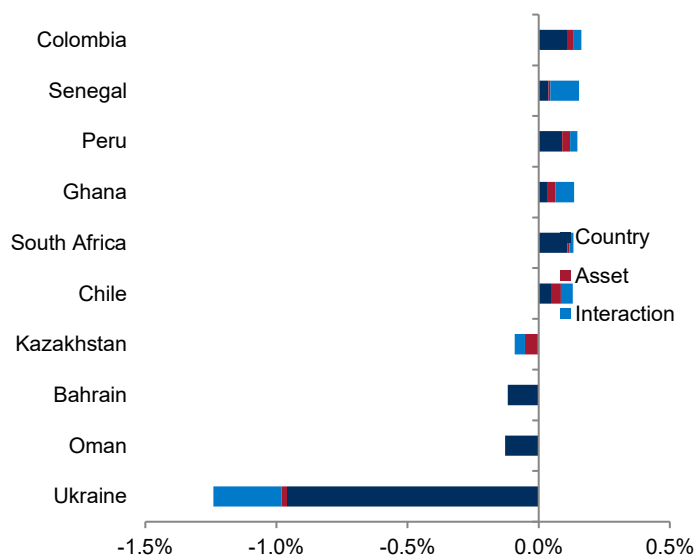


Attribution split: Most important Active Strategies**

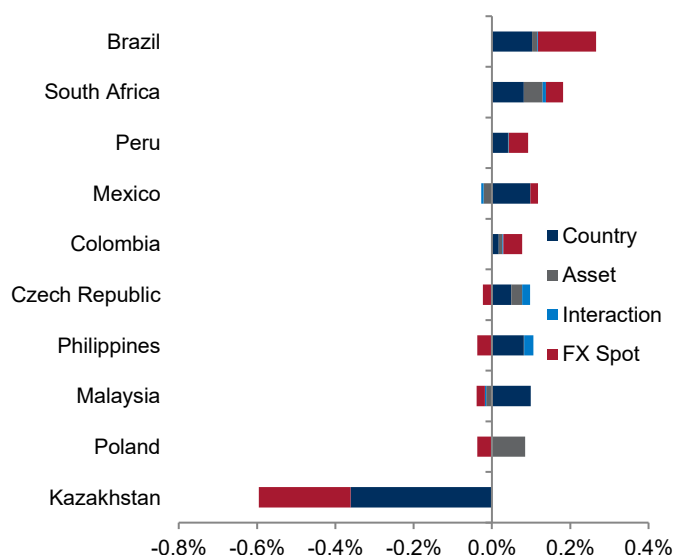


***) The graphs only show Active Strategies, i.e. contributions from mandatory exclusions are not displayed.

External debt: Most important contributors**



Local debt: Most important contributors**



***) The graphs only show Active Strategies, i.e. contributions from mandatory exclusions are not displayed.

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