

Sydinvest EM Sustainable Blended Debt acc I USD

Quarterly Attribution Report - Q3 2021
11 October 2021

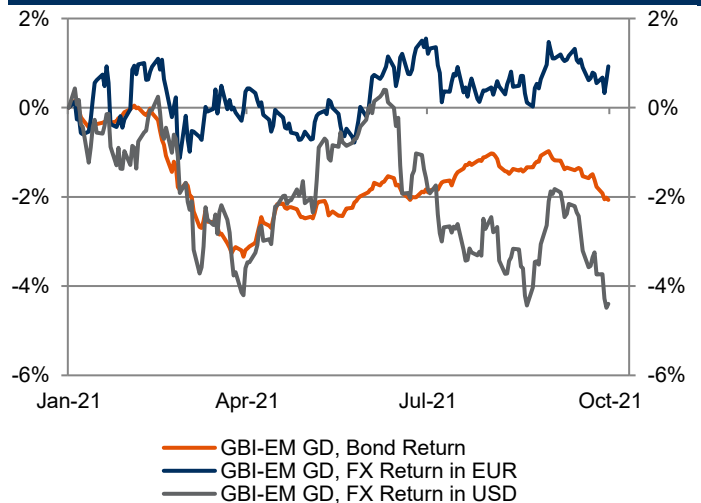
Main Points

- China's growth worries, inflation and slightly higher short end UST rates provided headwinds for emerging market bonds and FX in Q3.
- In Q3 the hard currency benchmark posted a return of minus 0.70% while the local benchmark returned minus 3.10%.
- The fund yielded a return of minus 2.17% in Q3, which was 27bp lower than its benchmark.
- The ESG exclusion of benchmark countries was a 56bp drag on performance in Q3.
- China's growth worries and tapering by the Fed will most likely shape Q4.

Benchmark hard currency emerging market bonds issued in USD returned minus 0.70% as the YTM rose by 22bp to 5.13% and the credit spread widened by 17bp to 357bp.



Emerging market bonds issued in local currency returned minus 3.10% unhedged to USD at benchmark level. The negative return came from both the EM FX and EM local rates side of the benchmark.



Performance Review: Portfolio return

The fund yielded a return of minus 2.17% in Q3, which was 27bp lower than its benchmark. The ESG exclusion of benchmark countries was a 56bp drag on performance in Q3. The overall asset allocation was neutral throughout Q3. Performance was positive as regards the local currency part of the portfolio.

In hard currency the underweight in El Salvador, the overweights in Belize, Senegal and the Seychelles, the asset allocation in Brazil as well as the overweight in Lebanon added to performance. However the ESG related zero weights in Lebanon, Russia, Zambia and China, the overweight and asset allocation in Romania, the overweights in Egypt, Tunisia and South Africa as well as the asset allocation in Ukraine detracted from performance.

In local currency the off-benchmark positions in Kazakhstan, Egypt and India, the ESG related zero weight in Thailand, the overweight in Malaysia as well as the underweight in Poland added to performance. Conversely the ESG related underweights in China, Russia and Turkey, the FX overweights in Brazil and South Africa as well as the positioning in Peru detracted from performance. For further portfolio information please see pages 2 and 3.

Asset Class Review

China's growth worries, inflation and slightly higher short end UST rates provided headwinds for emerging market bonds and FX in Q3. Benchmark hard currency EM bonds issued in USD returned minus 0.93% hedged to EUR as the YTM rose by 22bp to 5.13% and the credit spread widened by 17bp to 357bp. The credit spread widening primarily occurred in the HY part of the benchmark.

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 3.10% unhedged to USD in Q3.

Portfolio Strategy & Changes

The fund had a neutral allocation between hard currency and local currency throughout Q3. In hard currency the largest overweights at the end of Q3 are Senegal, Romania and Ghana as we reduced in South Africa. In contrast the Philippines, Bahrain and Oman are the largest non-ESG related underweights. In terms of duration Romania and Mexico are the largest overweights. The fund has several large overweights in frontier countries, for instance Ghana, Senegal and the Seychelles.

In local currency the largest FX overweights are Kazakhstan, Mexico and Malaysia whereas the largest active (non-ESG related) underweights are Hungary, Poland and Romania. The fund has off-benchmark positions in Kazakhstan, Egypt, Ghana and Ukraine.

For a deeper dive into the portfolio changes please see the monthly portfolio reports.

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.

Sydivest EM Sustainable Blended Debt: Performance attribution – Q3 2021

Performance – Q3 2021

	Fund	Benchmark	Performance
Current quarter	-2.17%	-1.90%	-0.27%
Year to date	-4.32%	-3.87%	-0.45%

Performance Attribution – Q3 2021

	Avg Wgt.	Fund	Benchmark	Performance
Allocation				0.00%
External Debt	50.00%	-0.55%	-0.34%	-0.20%
Local Debt	50.00%	-1.62%	-1.56%	-0.07%
Total	100.00%	-2.17%	-1.90%	-0.27%

Performance Attribution: Break-down

	Country	Asset	Interaction	FX Spot	Perf.
HC Excluded Countries	-0.17%	0.00%	0.00%	0.00%	-0.17%
HC Excluded Quasi-Sovereigns	-0.02%	0.00%	0.00%	0.00%	-0.02%
LC Excluded Countries	-0.18%	0.00%	0.00%	-0.18%	-0.37%
Total, Excluded	-0.38%	0.00%	0.00%	-0.18%	-0.56%
HC, non-Excluded	-0.02%	0.06%	0.00%	0.03%	0.06%
LC, non-Excluded	0.05%	0.08%	0.04%	0.20%	0.38%
Total, non-Excl.	0.03%	0.13%	0.04%	0.24%	0.44%
Asset Class Allocation	0.00%	0.00%	0.00%	0.00%	0.00%
Cost	-0.16%	0.00%	0.00%	0.00%	-0.15%
Strategy Total Performance	-0.50%	0.13%	0.04%	0.05%	-0.27%

*) 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	-0.36%	El Salvador	0.06%	0.00%	0.00%	0.06%
	-0.14%	Brazil	0.00%	0.05%	-0.01%	0.05%
	0.18%	Belize	0.04%	0.00%	0.00%	0.05%
	2.02%	Senegal	0.03%	0.00%	0.00%	0.03%
	0.36%	Paraguay	0.00%	0.01%	0.02%	0.02%
Bottom 5 Contributors	2.14%	South Africa	-0.03%	0.00%	0.01%	-0.02%
	0.49%	Tunisia	-0.04%	0.00%	0.00%	-0.04%
	2.06%	Ukraine	0.01%	-0.02%	-0.04%	-0.05%
	1.69%	Egypt	-0.05%	0.00%	0.00%	-0.05%
	2.26%	Romania	-0.03%	-0.01%	-0.03%	-0.08%

Local Currency: Active Strategies in non-excluded Countries*

	Average OW/UW	Country	Asset	Interaction	FX Spot	Total
Top 5 Contributors	2.30%	Kazakhstan	0.07%	0.00%	0.00%	0.14%
	0.78%	Egypt	0.03%	0.00%	0.00%	0.05%
	1.86%	Malaysia	0.01%	0.00%	0.00%	0.05%
	0.97%	India	0.01%	0.00%	0.00%	0.04%
	-1.01%	Poland	0.01%	0.01%	0.00%	0.04%
Bottom 5 Contributors	1.41%	Philippines	0.01%	0.00%	-0.01%	-0.01%
	0.61%	Colombia	0.00%	-0.01%	0.00%	-0.01%
	0.72%	Peru	-0.03%	0.01%	0.01%	-0.02%
	0.91%	South Africa	0.00%	-0.01%	0.00%	-0.03%
	0.67%	Brazil	-0.01%	-0.01%	0.00%	-0.08%

Portfolio Summary – As at 30 September 2021

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	Senegal	2.17%	2.02%	-	-	4.62	9.54	0.09
	Ukraine	3.24%	1.98%	-	-	2.59	4.68	0.02
	Ghana	2.54%	1.73%	-	-	5.30	5.88	0.09
	Romania	2.26%	1.69%	-	-	11.69	10.06	0.21
	Mexico	3.95%	1.54%	-	-	11.20	9.29	0.22
5 Largest Underweights	Russia*	0.00%	-1.67%	-	-	0.00	7.95	-0.13
	Turkey*	0.00%	-1.76%	-	-	0.00	5.40	-0.09
	Saudi Arabia*	0.00%	-1.91%	-	-	0.00	9.87	-0.19
	United Arab Emirates'	0.00%	-2.01%	-	-	0.00	9.01	-0.18
	China*	0.00%	-2.19%	-	-	0.00	5.80	-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	Kazakhstan	2.25%	2.25%	2.25%	2.25%	2.55	0.00	0.06
	Mexico	6.52%	1.88%	6.52%	1.89%	4.69	4.84	0.08
	Malaysia	5.79%	1.84%	5.79%	1.84%	6.88	6.09	0.16
	Czech Republic	3.79%	1.54%	3.07%	0.81%	4.67	6.01	0.04
	Philippines	1.46%	1.40%	1.46%	1.40%	1.35	6.97	0.02
5 Largest Underweights	Romania	0.60%	-0.92%	0.63%	-0.90%	8.12	3.72	-0.01
	Hungary	0.51%	-1.38%	0.53%	-1.37%	7.66	5.02	-0.06
	Russia*	0.00%	-3.86%	0.00%	-3.86%	0.00	4.68	-0.18
	Thailand*	0.00%	-4.31%	0.00%	-4.31%	0.00	6.84	-0.30
	China*	0.00%	-5.00%	0.00%	-5.00%	0.00	5.57	-0.28

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

Rating distribution

Composite Rating	
AAA	6.96%
AA	5.93%
A	13.56%
BBB	34.48%
BB	21.79%
B	15.39%
CCC and below	2.84%
Not rated	0.00%
Default	0.00%

Concentration risk

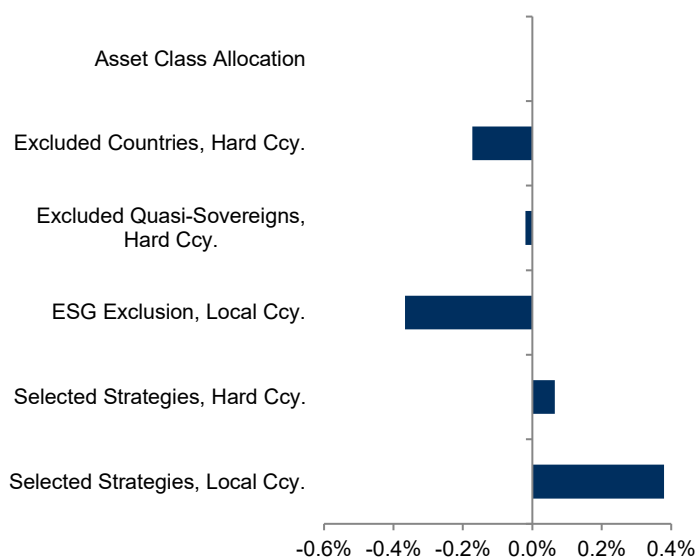
Country	Total Bond	HC Bond	LC Bond	Ccy Exp.
Mexico	10.47%	3.95%	6.52%	6.52%
Indonesia	8.63%	3.43%	5.20%	5.20%
South Africa	7.83%	2.79%	5.04%	5.09%
Brazil	6.50%	1.38%	5.12%	5.12%
Malaysia	5.79%	0.00%	5.79%	5.79%
Colombia	4.76%	1.78%	2.98%	2.98%
Poland	3.15%	0.00%	3.15%	3.91%
Czech Republic	3.79%	0.00%	3.79%	3.07%
Ukraine	3.70%	3.24%	0.46%	0.46%

Duration distribution

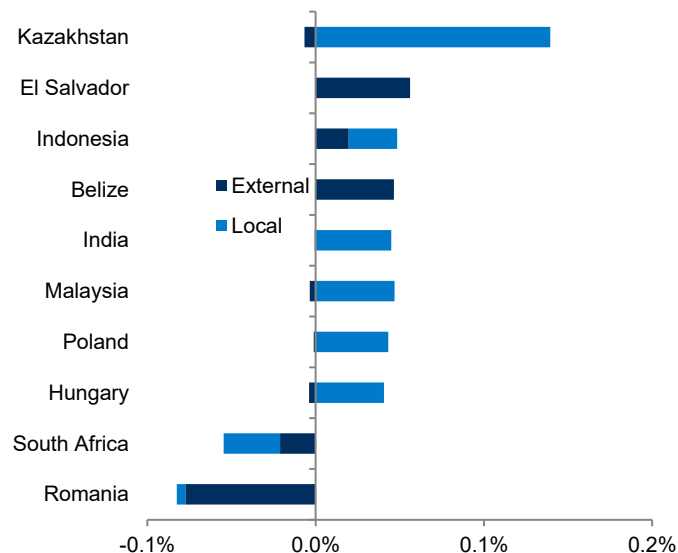
Dur. Years	Weight	Avg. Dur.
0-2	14.94%	0.71
2-5	28.67%	3.70
5-10	38.53%	6.75
10-15	12.74%	11.67
15+	5.13%	16.25
Total	100.00%	6.09

Sydinvest EM Sustainable Blended Debt: Performance attribution – Q3 2021

Attribution: Break-down on ESG and Asset Class

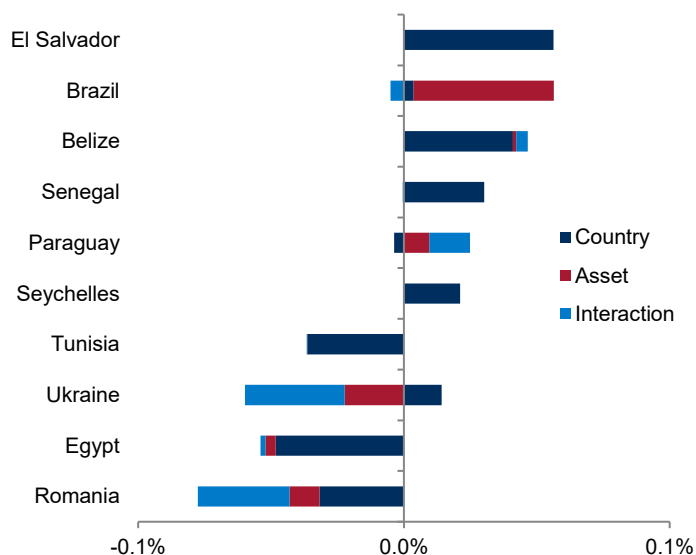


Attribution split: Most important Active Strategies**

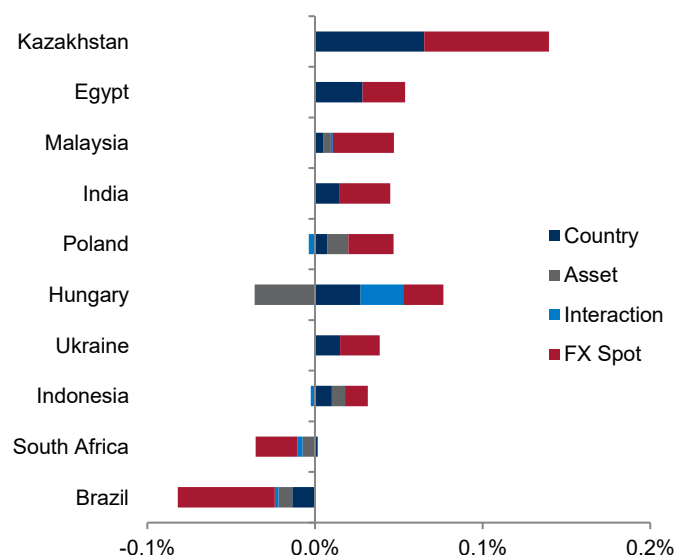


***) The graphs only show Active Strategies, i.e. contributions from mandatory exclusions are not displayed.

External debt: Most important contributors**



Local debt: Most important contributors**



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