

Sydinvest EM Sustainable Bonds d W DKK

Quarterly Attribution Report - Q1 2022

8 April 2022

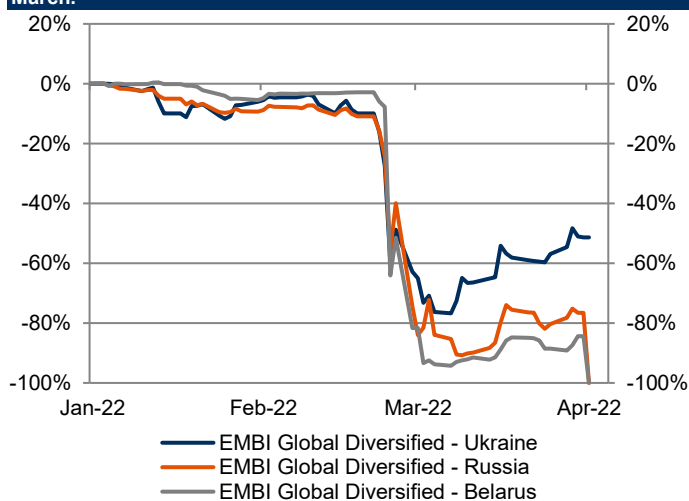
Main Points

- 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 9.68% in Q1, which was 62bp better than its benchmark.
- The ESG exclusion of benchmark countries and quasi sovereigns added 217bp to performance in Q1.
- Benchmark emerging market bonds issued in USD returned minus 10.30% hedged to DKK as the YTM rose by 1.15bp to 6.44% and the credit spread widened by 31bp to 400bp.
- The war in Ukraine, inflation and hawkish central banks will shape Q2.

Benchmark emerging market bonds issued in USD returned minus 10.30% hedged to DKK as the YTM rose by 1.15bp to 6.44% and the credit spread widened by 31bp to 400bp.



Russia and Belarus was kicked out of the benchmark at the end of March. Ukrainian bonds were also hard hit, but staged a comeback in March.



Performance Review: Portfolio return

The fund yielded a return of minus 9.68% in Q1, which was 62bp better than its benchmark. The ESG exclusion of benchmark countries and quasi sovereigns added 217bp to performance in Q1.

In Q1 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. For further portfolio information please see pages 2 and 3.

Portfolio Strategy & Changes

The fund is slightly underweight in spread duration and slightly overweight Treasury duration. The fund holds a wide range of bonds issued in EUR while the benchmark is pure US dollar. The resulting mismatch between Bunds and UST is hedged with futures. The fund's investments are spread across around 30 countries and more than 70 issues. 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 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. For a deeper dive into the portfolio changes please see the monthly portfolio reports.

Asset Class Review

Russia's brutal war on Ukraine, inflation and the Fed's very hawkish turn were the defining elements of Q1. Benchmark emerging market bonds issued in USD returned minus 10.30% hedged to DKK as the YTM rose by 1.15bp to 6.44% and the credit spread widened by 31bp to 400bp. The credit spread widening was more pronounced in the HY part of the benchmark. The IG part saw a small spread widening. If Russia had not been excluded the widening would have been much bigger.

The return of the IG part took a big hit from the freefall of Russian bonds and the exclusion of Russia at the end of March. Belarus and Russia at benchmark level lost all their value due to the exclusion. Ukraine posted a negative return of 51.3% in Q1. It was a dark quarter in general and only a few countries delivered positive returns 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.

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.

The sanctions on Russia and Belarus have had a major impact on the EM bond market because Russia has been kicked out of JPMorgan's EM bond index. For EM bonds issued in USD this means that Russia's weight has gone from more than 3% at the beginning of the year to now zero. The weighting of Belarus was 0.4%. Due to the exclusions it is slightly harder to compare yield spreads now with those at the beginning of the year but fundamentally yield spreads have widened slightly whereas US interest rates have increased considerably and are the main reason for the higher yield to maturity, which represented 6.44% at the end of Q1 with a yield spread of 400bp.

Sydivest EM Sustainable Bonds d W DKK: Performance attribution – Q1 2022

Performance – Q1 2022

	Fund	Benchmark	Performance
Current quarter	-9.68%	-10.30%	0.62%
Year to date	-9.68%	-10.30%	0.62%

Performance Attribution - Q1 2022

Country	Asset	Interaction	Residual	Cost	Total	
	1.07%	0.02%	-0.14%	-0.21%	-0.12%	0.62%

Performance Attribution: Break-down - Q1 2022

	Country	Asset	Interaction	Performance	
Excluded Countries	2.17%	-	-	2.17%	
Excluded Quasi-Sovereigns	-0.18%	-	-	-0.18%	
Selected Strategies	-1.03%	-0.15%	-0.07%	-1.25%	
Cost	-0.12%	-	-	-0.12%	
	0.00%	0.84%	-0.15%	-0.07%	0.62%

ESG Excluded Countries or company: Top & Bottom

	OW/UW	Performance
Russia	-2.23%	2.99%
Belarus	-0.28%	0.38%
Kazakhstan	-1.06%	0.11%
Pakistan	-1.10%	0.10%
Saudi Arabia	-4.08%	-0.14%
United Arab Emirates	-4.32%	-0.16%
China	-4.65%	-0.22%
Turkey	-3.61%	-0.33%

Active Strategies in non-excluded Countries: Top contributors*

	Average OW/UW	Country	Asset	Interaction	Total	
Top 5 Contributors	3.29%	Colombia	0.19%	0.06%	0.07%	0.31%
	4.00%	Senegal	0.07%	0.01%	0.22%	0.31%
	3.71%	Ghana	0.08%	0.06%	0.14%	0.28%
	4.34%	Chile	0.09%	0.08%	0.11%	0.28%
	3.27%	Peru	0.15%	0.06%	0.06%	0.27%
Bottom 5 Contributors	3.61%	Romania	0.07%	-0.06%	-0.16%	-0.15%
	-2.44%	Bahrain	-0.22%	0.00%	0.00%	-0.22%
	0.87%	Kazakhstan	-0.03%	-0.09%	-0.10%	-0.22%
	-2.83%	Oman	-0.24%	0.00%	0.00%	-0.24%
	3.16%	Ukraine	-1.57%	-0.03%	-0.43%	-2.04%

Active Strategies in non-excluded Countries: Top OW/UW*

	Average OW/UW	Country	Asset	Interaction	Total	
Top 5 Contributors	6.49%	Mexico	0.17%	0.00%	-0.01%	0.16%
	4.34%	Chile	0.09%	0.08%	0.11%	0.28%
	4.23%	South Africa	0.20%	0.02%	0.04%	0.25%
	4.05%	Indonesia	0.11%	-0.05%	-0.06%	0.01%
	4.00%	Senegal	0.07%	0.01%	0.22%	0.31%
Bottom 5 Contributors	-0.96%	Malaysia	-0.05%	0.00%	0.00%	-0.05%
	-2.44%	Bahrain	-0.22%	0.00%	0.00%	-0.22%
	-2.81%	Panama	-0.08%	0.00%	0.00%	-0.08%
	-2.83%	Oman	-0.24%	0.00%	0.00%	-0.24%
	-2.99%	Philippines	-0.06%	0.08%	-0.07%	-0.06%

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

Portfolio Summary – As at 31 March 2022

Ten largest Active over- and underweight allocations in the portfolio.

	Country	Weight, PF	Weight, BM	Over/underweight	Duration, PF	Duration, BM	Rel. Duration Cont.
10 Largest Overweights	Chile	7.83%	3.22%	4.60%	11.23	11.79	0.50
	Mexico	9.27%	5.22%	4.05%	10.00	9.12	0.45
	Ghana	5.44%	1.43%	4.01%	4.74	5.01	0.19
	Senegal	4.22%	0.28%	3.94%	4.26	8.87	0.16
	Colombia	6.72%	2.78%	3.93%	8.92	8.79	0.35
	Peru	6.65%	2.98%	3.67%	6.61	10.80	0.12
	South Africa	6.37%	2.73%	3.64%	6.25	6.71	0.21
	Egypt	6.32%	2.69%	3.62%	6.60	6.01	0.26
	Romania	4.77%	1.43%	3.34%	10.77	8.81	0.39
	Indonesia	7.92%	4.94%	2.98%	9.50	8.76	0.32
10 Largest Underweights	Malaysia	0.00%	2.84%	-2.84%	0.00	9.81	-0.28
	Bahrain	0.00%	2.92%	-2.92%	0.00	5.25	-0.15
	Panama*	0.00%	2.98%	-2.98%	0.00	11.06	-0.33
	Philippines	0.26%	3.27%	-3.01%	15.32	8.73	-0.25
	Oman	0.00%	3.05%	-3.05%	0.00	5.96	-0.18
	Turkey	0.00%	3.83%	-3.83%	0.00	5.06	-0.19
	Qatar	0.00%	3.95%	-3.95%	0.00	10.20	-0.40
	Saudi Arabia*	0.00%	4.16%	-4.16%	0.00	9.43	-0.39
	United Arab Emirates*	0.00%	4.30%	-4.30%	0.00	9.06	-0.39
	China*	0.00%	4.72%	-4.72%	0.00	5.56	-0.26

*) The country is excluded from the fund due to the ESG process.

Rating distribution

Composite Rating	Weight
AAA	0.00%
AA	0.00%
A	12.61%
BBB	34.40%
BB	22.89%
B	22.22%
CCC and below	7.89%
Not rated	0.00%
Default	0.00%

Concentration risk

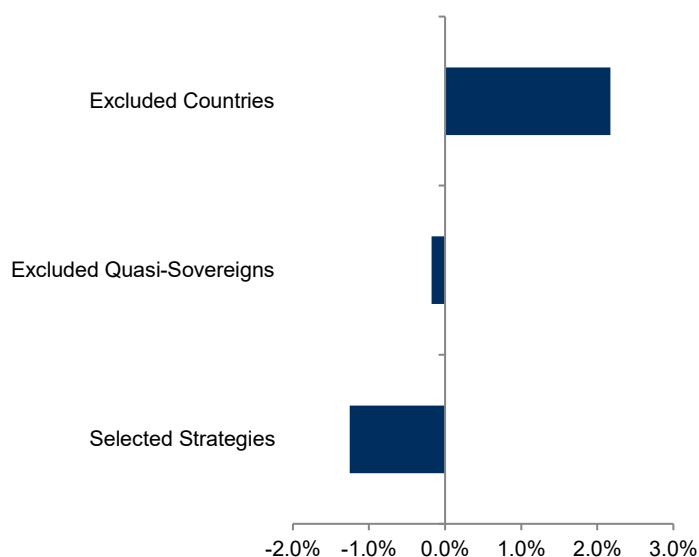
Country	Weight
Mexico	9.27%
Indonesia	7.92%
Chile	7.83%
Colombia	6.72%
Peru	6.65%
South Africa	6.37%
Egypt	6.32%
Ghana	5.44%
Romania	4.77%

Duration distribution

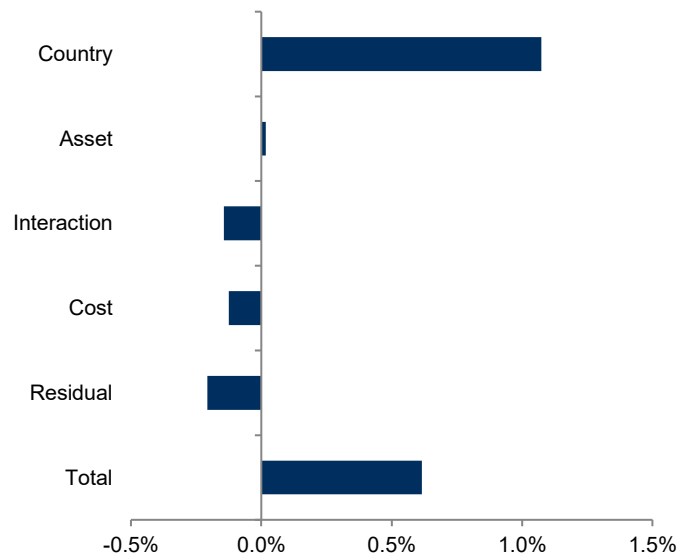
Dur. Years	Weight	Avg. Dur.
0-2	11.67%	0.69
2-5	18.70%	3.92
5-10	45.49%	7.47
10-15	18.67%	11.84
15+	5.47%	16.25
Total	100.00%	7.31

Sydinvest EM Sustainable Bonds d W DKK: Performance attribution – Q1 2022

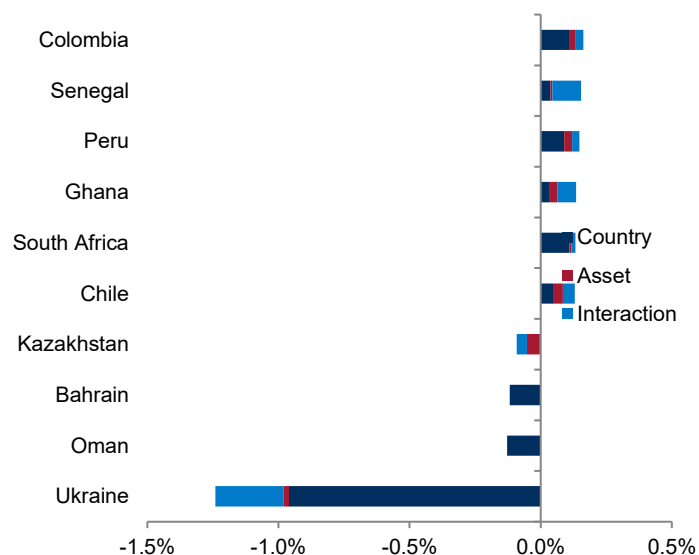
Attribution: Break-down on ESG and excluded



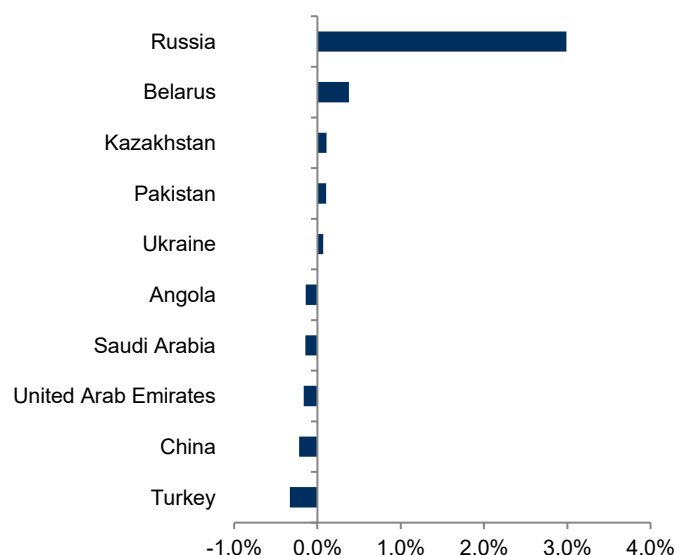
Attribution: Overall



Attribution: Most important contributors**



Attribution: ESG Excluded Countries or Quasi Sovereigns



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

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

Important disclosure for investors:

The publication has been prepared by Sydbank on behalf of Investeringforeningen Sydinvest. This publication does not represent an offer or an invitation to purchase or sell financial instruments. Nor does it represent a personal recommendation (investment advice) in relation to financial instruments. Any general recommendations are an expression of Sydbank's expectations on the basis of current market conditions. Consequently the recommendations are not based on fundamentals and therefore any investment decisions cannot be based on this publication alone. In case of specific investment actions Sydinvest and Sydbank always recommends that you seek separate advice. Investments are associated with the risk of financial loss. Past returns and price developments or forecasts cannot be used as reliable indicators of future returns and price developments. Sydinvest and Sydbank accepts no responsibility for losses which may have any direct or indirect connection with transactions made solely on the basis of this publication. This publication has been prepared on the basis of information from sources which Sydbank believes to be reliable. Sydinvest and Sydbank assumes no liability for errors, including any source errors, misprints or errors of calculation, or for any subsequent changes in assumptions. The Bank or its employees may hold financial instruments described in this publication. This publication is aimed at clients of Sydinvest and may not be published or further distributed without the express consent of the Bank. Sydinvest, Peberlyk 4, 6200 Aabenraa, Denmark, CVR No DK 24260534 is under the supervision of the Danish FSA, Århusgade 110, 2100 Copenhagen Ø, Denmark.