

Sydinvest EM Sustainable Bonds d W DKK

Quarterly Attribution Report - Q3 2021
11 October 2021

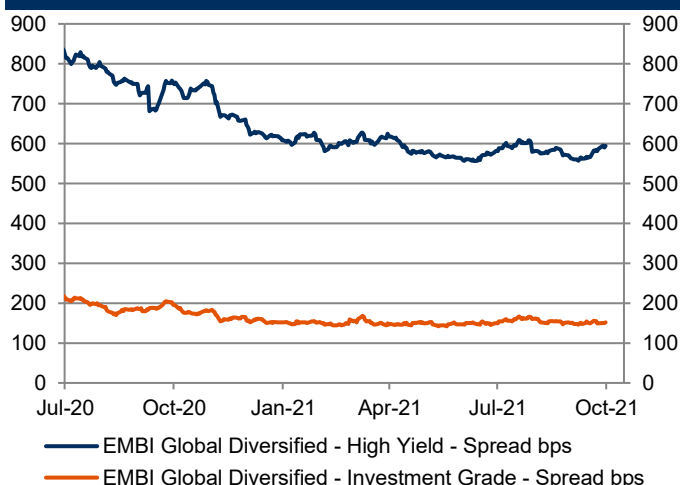
Main Points

- China's growth worries and slightly higher short end UST rates provided headwinds for emerging market bonds in Q3.
- Benchmark emerging market bonds issued in USD returned minus 0.91% hedged to DKK.
- The fund yielded a return of minus 1.38% in Q3, which was 48bp lower than its benchmark.
- The ESG exclusion of benchmark countries and quasi sovereigns was a 40bp drag on performance in Q3.
- China's growth worries and tapering by the Fed will most likely shape Q4.

Benchmark emerging market bonds issued in USD returned minus 0.91% hedged to DKK 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 High Yield part of the benchmark.



Performance Review: Portfolio return

The fund yielded a return of minus 1.38% in Q3, which was 48bp lower than its benchmark. The ESG exclusion of benchmark countries and quasi sovereigns was a 40bp drag on performance in Q3.

In Q3 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. For further portfolio information please see pages 2 and 3.

Asset Class Review

China's growth worries and slightly higher short end UST rates provided headwinds for emerging market bonds in Q3. Benchmark emerging market 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.

Lebanon was the top performer in the benchmark as the country is getting closer to forming a government. Belize came in second as investors in the country's only sovereign bond voted for a restructuring of the bond. Zambia was third due to a landslide win in the presidential election for the opposition leader Hichilema. This made it impossible for the incumbent Lungu to dispute the result, thus removing a lot of political risk from Zambian bonds. Bonds from El Salvador were hit hard due to President Bukele's change of the constitution to allow him to serve another term.

Portfolio Strategy & Changes

The fund is still slightly underweight Treasury duration and neutral Treasury duration. The fund's investments are spread across around 40 countries and more than 100 issues.

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. During Q3 the exposure to Africa vs benchmark was reduced. The reduction primarily happened in Egypt, Kenya and Nigeria. We also reduced in the Middle East. In Eastern Europe we added in Kazakhstan as we closed the big underweight and are now neutral. 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.

In September EM bonds issued in USD came under a bit of pressure as a result of a slightly more hawkish Fed coupled with the uncertainty surrounding the Chinese economy. In our assessment the yield spread of 357bp is a fair level given the current challenges and tailwinds. These include higher debt due to Covid-19 and stronger growth and resultant rising commodity prices. We see value in particular in selected B-rated credits as well as in selected BBB bonds issued in EUR while we see the least value in A-rated credits. In our opinion a slightly calmer fixed income market in the US will cause credit spreads to tighten.

Sydivest EM Sustainable Bonds d W DKK: Performance attribution – Q3 2021

Performance – Q3 2021

	Fund	Benchmark	Performance
Current quarter	-1.38%	-0.91%	-0.48%
Year to date	-2.14%	-1.97%	-0.17%

Performance Attribution - Q3 2021

Country	Asset	Interaction	Residual	Cost	Total
	-0.77%	0.27%	0.13%	0.04%	-0.48%

Performance Attribution: Break-down - Q3 2021

	Country	Asset	Interaction	Performance
Excluded Countries	-0.34%	-	-	-0.34%
Excluded Quasi-Sovereigns	-0.06%	-	-	-0.06%
Selected Strategies	0.27%	-0.30%	0.09%	0.07%
Cost	-0.14%	-	-	-0.14%
0.00%	-0.27%	-0.30%	0.09%	-0.48%

ESG Excluded Countries or company: Top & Bottom

	OW/UW	Performance
Guatemala	-0.72%	0.01%
Nigeria	-1.42%	0.01%
Peru	-0.32%	0.01%
Ethiopia	-0.11%	0.00%
China	-4.40%	-0.05%
Zambia	-0.27%	-0.05%
Russia	-3.38%	-0.06%
Lebanon	-0.25%	-0.08%

Active Strategies in non-excluded Countries: Top contributors*

	Average OW/UW	Country	Asset	Interaction	Total
Top 5 Contributors	0.46%	0.11%	0.00%	0.01%	0.12%
	-0.71%	0.11%	0.00%	0.00%	0.11%
	-0.24%	0.00%	0.11%	-0.01%	0.10%
	3.98%	0.06%	0.00%	0.01%	0.07%
	1.34%	0.05%	0.00%	0.00%	0.05%
Bottom 5 Contributors	4.34%	-0.09%	0.01%	0.03%	-0.05%
	3.48%	0.02%	-0.03%	-0.04%	-0.05%
	0.87%	-0.06%	0.00%	0.00%	-0.06%
	3.55%	-0.10%	-0.01%	-0.01%	-0.13%
	4.65%	-0.07%	-0.02%	-0.07%	-0.16%

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

	Average OW/UW	Country	Asset	Interaction	Total
Top 5 Contributors	5.38%	-0.04%	0.01%	0.03%	0.00%
	4.65%	-0.07%	-0.02%	-0.07%	-0.16%
	4.34%	-0.09%	0.01%	0.03%	-0.05%
	3.98%	0.06%	0.00%	0.01%	0.07%
	3.55%	-0.10%	-0.01%	-0.01%	-0.13%
Bottom 5 Contributors	-0.86%	0.00%	0.00%	0.00%	0.00%
	-0.98%	0.00%	-0.01%	0.00%	-0.01%
	-1.06%	0.00%	0.00%	0.00%	0.00%
	-2.28%	-0.01%	0.00%	0.00%	-0.01%
	-2.95%	0.01%	0.00%	0.00%	0.01%

*) 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 2021

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	Senegal	4.37%	0.28%	4.09%	4.62	9.54	0.18
	Romania	5.19%	1.13%	4.05%	11.46	10.06	0.48
	Ghana	5.19%	1.63%	3.56%	5.33	5.88	0.18
	Ukraine	6.04%	2.52%	3.52%	2.81	4.68	0.05
	Mexico	8.04%	4.83%	3.21%	11.20	9.29	0.45
	South Africa	5.73%	2.57%	3.16%	6.35	6.64	0.19
	Egypt	5.61%	2.56%	3.05%	7.05	6.58	0.23
	Indonesia	7.03%	4.62%	2.41%	9.52	9.04	0.25
	Dominican Rep.	5.00%	2.61%	2.39%	7.76	8.96	0.15
	Chile	4.96%	2.93%	2.02%	12.13	12.36	0.24
10 Largest Underweights	Oman	1.44%	2.69%	-1.25%	4.57	6.18	-0.10
	Nigeria*	0.00%	1.93%	-1.93%	0.00	7.13	-0.14
	Bahrain	0.00%	2.61%	-2.61%	0.00	5.14	-0.13
	Malaysia	0.00%	2.67%	-2.67%	0.00	9.93	-0.26
	Philippines	0.00%	3.03%	-3.03%	0.00	9.04	-0.27
	Russia*	0.00%	3.34%	-3.34%	0.00	7.95	-0.27
	Turkey*	0.00%	3.52%	-3.52%	0.00	5.40	-0.19
	Saudi Arabia*	0.00%	3.83%	-3.83%	0.00	9.87	-0.38
	United Arab Emirates*	0.00%	4.03%	-4.03%	0.00	9.01	-0.36
	China*	0.00%	4.37%	-4.37%	0.00	5.80	-0.25

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

Rating distribution

Composite Rating	
AAA	0.00%
AA	4.90%
A	6.73%
BBB	31.81%
BB	22.94%
B	29.35%
CCC and below	0.00%
Not rated	0.00%
Default	0.00%

Concentration risk

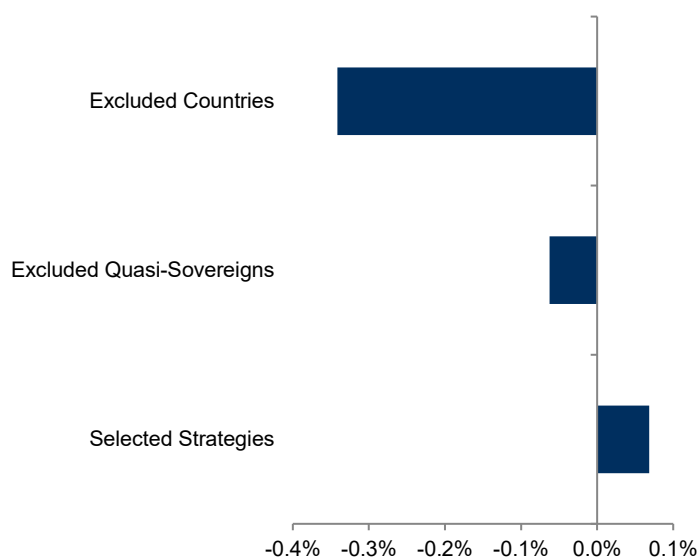
Country	Weight
Mexico	8.04%
Indonesia	7.03%
Ukraine	6.04%
South Africa	5.73%
Egypt	5.61%
Ghana	5.19%
Romania	5.19%
Dominican Rep.	5.00%
Chile	4.96%

Duration distribution

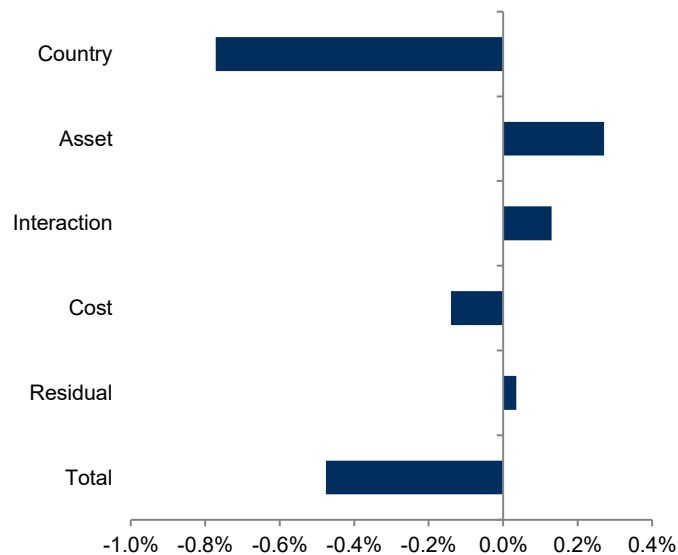
Dur. Years	Weight	Avg. Dur.
0-2	8.60%	0.98
2-5	20.14%	4.05
5-10	37.92%	6.73
10-15	22.27%	11.77
15+	11.08%	16.25
Total	100.00%	7.87

Sydinvest EM Sustainable Bonds d W DKK: Performance attribution – Q3 2021

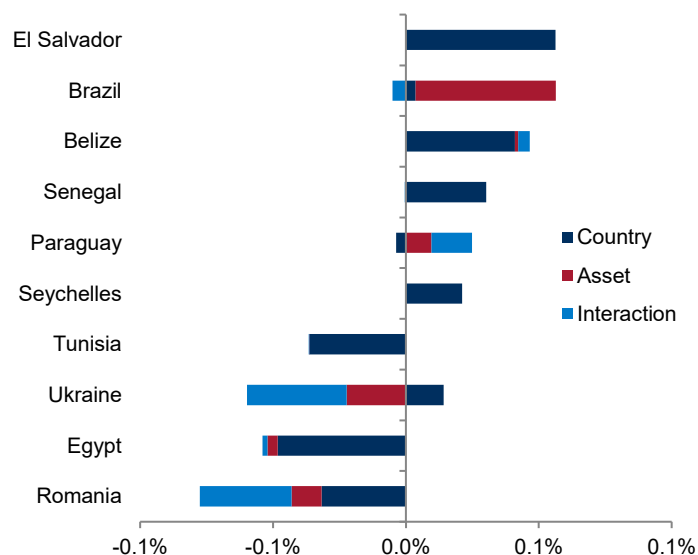
Attribution: Break-down on ESG and excluded



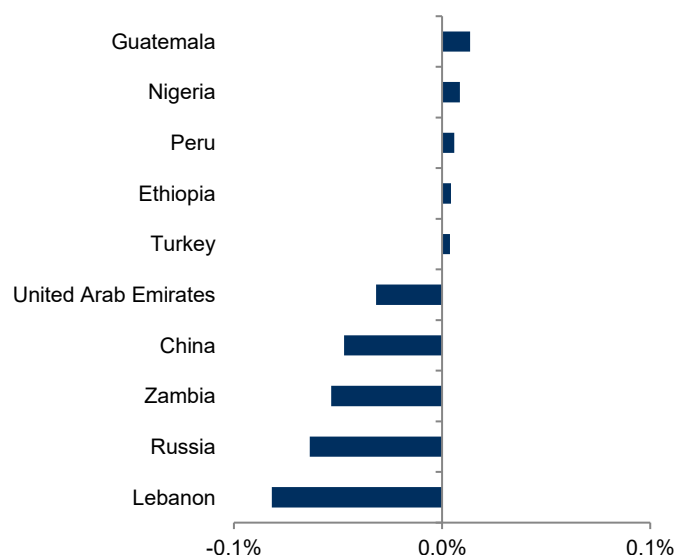
Attribution: Overall



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.

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