1st Quarter 2021

BI SICAV Emerging Markets Corporate Debt I (EUR)

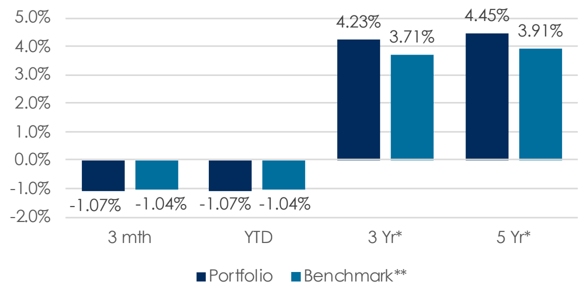
Dear Investor

Please note that information regarding companies (issuers) and financial instruments (e.g. shares or bonds) in this investor letter shall not be considered as investment recommendations to buy, sell or hold any financial instruments. Information about companies and financial instruments shall only be considered as information concerning the fund's portfolio and risk profile for that quarter.

Summary

- EM corporate spreads tightened but as UST yields (nominal and real yields) moved higher total returns across EM fixed income turned negative
- Investment grade posted a return of -1.7% and high yield credits conversely still benefitted from the reflation trade and returned a positive 0.4% return
- Large fiscal stimuli are further fueling 2021 growth expectations and bringing growth levels above pre-covid-19 levels in many countries
- Commodity related exporters are benefitting by the ongoing commodity price boom whereas the rebound for service and tourism related economies is delayed
- It is notable that most funding requirements for the loose fiscal policies in EM have been met with domestic rather than external debt
- Generally, we foresee improved credit metrics and high yielders to benefit

Return



Portfolio performance is net of fees

* Returns over 1 year are annualized

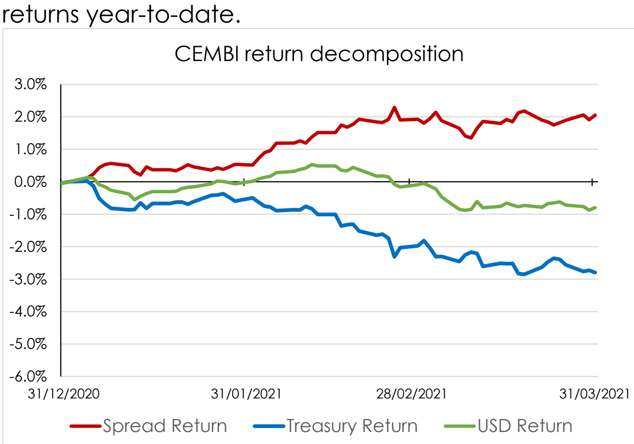
** Benchmark is JP Morgan CEMBI Broad Diversified hedged to EUR

Risk figures (5 year, ex post)

Standard deviation	7.87%
Tracking Error	1.24%

Q1 review

Emerging market (EM) assets performed strongly in the final innings of 2020, driven by optimism about covid-19 vaccine rollout and the ongoing global economic recovery led by the US, as well as highly accommodative financial conditions. Q1 kept the positive momentum initially but as some investors started to question whether markets had front-loaded all or most of the returns for 2021 EM asset performance soon turned for the worse. As UST yields (nominal and real yields) moved higher, total returns across EM fixed income turned sharply negative. The main driver was the move higher in rates which may have come for the 'right' reasons, reflecting fundamentals and stronger growth prospects, but the pace of the rise caused EM risk premia to struggle to decouple from the negative impact of rising rates. While the positive momentum in flows into EM equity funds was sustained, flows into EM fixed income funds turned negative by the latter half of Q1 provoking bad memories of historical episodes of rapidly rising rates that created vicious cycles of negative returns and fund outflows. It is beyond the objective of this letter to discuss US rates. But lower rate volatility and better rate predictability is a prerequisite for the usual pattern of negative correlations between spreads and US rates to return. The impact of the rapid rise in rates is illustrated in the graph below which shows the negative impact from rising US rates offset by the positive spread returns which resulted in negative returns year-to-date.



CEMBI returned -0.8% during the quarter with IG posting a return of -1.7% and HY credits conversely still benefitted from the reflation trade with a modest 0.4%. CEMBI struggled against US HY credit, which returned 1.4% albeit it remained ahead of EMBI which returned -4.5%. The fund's return during the quarter was almost 20bps ahead of its benchmark.

Much of the resilience in CEMBI could be attributed to the preponderance of Asia in the investable universe since the region was only down by -0.45% during the quarter (-1.1% IG / +1.0% HY). Less rate sensitive HY credits continued to gain from the ongoing cyclical recovery and credits spanning commodity producers, real estate, and energy dominated in the Asian HY space. CEEMEA credits had negative returns of -0.43% (-1.8% IG / +1.3% HY). The preponderance of oil producers in this region helped to lift performance against the difficult backdrop from rising yields. Some idiosyncratic stories also developed, with credits from Ukraine temporarily rallying while Turkish credits suffered from a sudden unexpected and unwelcome sacking of the central bank governor.

LatAm was the underperforming region of the quarter owing to its setbacks in handling the covid-19 pandemic and its sluggish growth dynamics which predated the pandemic. Credits from this region returned -1.9% (-3.2% IG / -0.5% HY). LatAm IG suffered from the large number of long-maturity bonds, particularly in Mexico and the Andean countries. LatAm HY faced specific challenges like Argentina's ongoing woes and YPF's sloppy debt restructuring process. Brazil also surprised with Lula's return to mainstream politics as fears over a far-left populist administration taking over in 2022 ramped up.

2021 will be a year of high global growth, but will it also bring back inflation?

Accommodative central banks were in focus last year and remain so in 2021. Large fiscal stimuli are however further fueling 2021 growth expectations and bringing growth levels above pre-covid-19 levels in many countries. In fact, the IMF now projects a global growth rate of 6% in 2021 which is more than double the average growth rate since 1980 driven by China and US growth. As these two economies represent 40% of global growth, their demand will drive EM growth higher but at different speeds. Clearly, commodity related exporters are benefitting by the ongoing commodity price boom whereas the rebound for service and tourism related economies is delayed.

Broadly, inflation remains manageable for EM, although it has been rising driven by base effects. However, these are expected to fade by Q2 and onwards. We do not anticipate inflation to be problematic for the bulk of EM which still has ample capacity. However, select countries do see inflation signs from higher soft commodity prices and through weaker FX which requires tightening of monetary policies. As examples Brazil, Russia and Turkey all raised rates in Q1, but these actions were idiosyncratic. By H2 2021 or 2022, we would anticipate more countries to follow suit, however, as inflation expectations are not widely anchored in all EM and given rising food prices could increase inflation pressure in the weakest EM countries. Generally, we continue to have faith in EM central banks capabilities to control inflation and do not see this as a risk factor. Moreover, it is notable that most funding requirements for the loose fiscal policies in EM have been met with domestic rather than external debt.

Concluding, we expect EM to benefit from higher global growth and rising commodity prices, although note that the minority group of EM commodity importers with capital account deficits will see more pressure. EM spread outperformance versus developed markets risks not resuming until there is clarity about US real rates, but as these settle down, we would envision renewed outperformance on the back of higher growth, increased commodity prices and continued accommodative global central banks. Generally, we foresee improved credit metrics and high yielders to benefit. Nonetheless, the journey will continue to differentiate credits due to country specific hick-ups and rising geopolitical tensions also remain a notable risk factor. Therefore, we maintain our modest risk overweight based on the lower part of the IG space as well as the better part of the HY credits and remain vigilant to add appropriate risks as opportunities arise.

Kind regards,

Annie Chen, Chresten Hagelund, Eduardo Ordonez, Søren Bertelsen and Troels Halck Pedersen

BI Asset Management Fondsmæglerselskab A/S "BankInvest"

Last edited 31th March 2021.