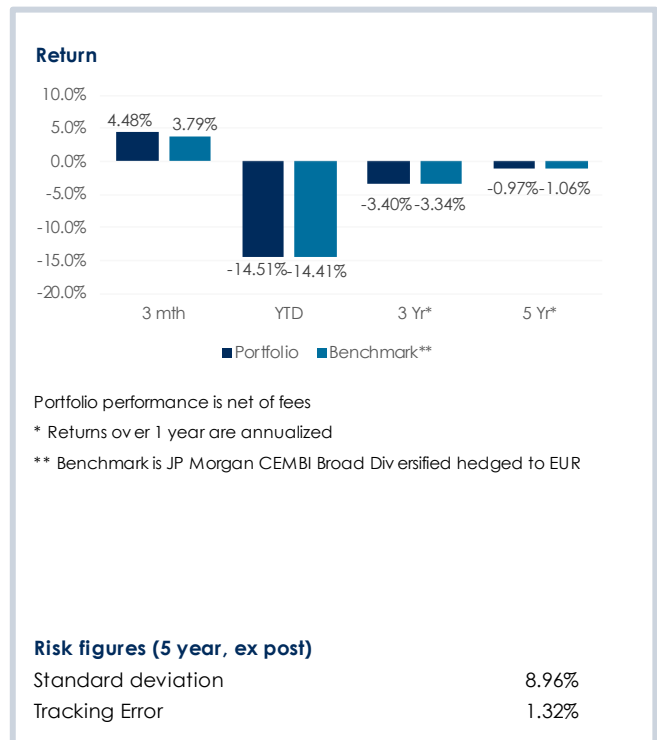


Investor letter - BI SICAV Emerging Markets Corporate Debt I (EUR)

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

- Q4 saw a notable comeback to EM bonds after a horrible year. The quarter resulted in a positive return for EM corporate bonds of 3.79 % for the benchmark and 4.48 % for the share class.
- In China, the Communist Party Congress expanded President Xi's ability to continue to lead the country. Later, the country softened its restrictive zero tolerance on Covid and looks set to open its economy despite the boom in reported (and unreported) cases
- Argentina won the World Cup in football for the first time ever the tournament was held in the Middle East. Meanwhile, hopes have been rising for political change in Buenos Aires at the elections next year. Already this quarter, such Brazil opted for such change by electing former President Lula as new president



Strong finish to a horrible year

A volatile Q4 ended one of the worst years for fixed income in decades. Expectations of global central banks being closer at monetary policy peaks and a weaker USD together with China abandoning its zero Covid policies brought tailwinds to risky assets. At the same time, the cap on Russian oil prices did not seem to have an immediate disruptive impact on oil prices and mild European temperatures led to declining natural gas prices. Base metals, however, took direction from the Chinese Covid turnaround and rose over the quarter. Altogether most leading inflation indicators did point towards receding inflation pressures and it is our expectation that the decline in disposable incomes will lead to lower inflation in 2023 as demand continues to moderate.

One of the main events of the quarter was the Chinese Communist Party Convent which as expected enabled President Xi to continue his presidency and thereby reach a status not seen since Mao. Short term this has enabled softer Covid restrictions, but longer term we expect Xi to pursue his aspirations of manifesting China as a global

powerhouse. Hence, it is our expectations that the geopolitical power struggle between China and the US will continue unabated for years to come. The war in Ukraine continued to put pressure on the Ukrainian people with accelerated attacks on the country's energy infrastructure leaving large parts of the country in the dark. Both sides seem to be preparing for the next large battles by the end of this quarter and we expect a protracted war to remain a theme in 2023. Despite the cruelties against Ukraine, the City of Kiev managed to repay its debts on time in Q4, just as government owned banks and select companies impressively continue to remain current.

Q4 had a happy ending for EM as Argentina won the football World Cup in the first ever such tournament held in Qatar. Simultaneously, though not relatedly, expectations and hope grew for a more market friendly government winning the elections next year so hopefully the World Cup win will be a good omen. Brazil held their elections which showed a split population marginally electing former President Lula

as upcoming president. Now investors wait to see if Lula returns to his leftist backgrounds or choose a more moderate route.

All in all, Q4 provided a strong finish with a 4.77 % return gross of fees, thus handsomely outperforming the benchmark by 98 bp. Most of this outperformance came from exposures to South Africa, Indonesia, Philippines and Ukraine.

Inflation, monetary policies and growth

The overarching theme for 2022 was inflation which surprised most by being more pertinent than anticipated. Despite the increased pressure on disposable incomes the high inflation needs to be curbed even though it brings recession in 2023. As the economy enters 2023, the world economy faces receding growth but without lower rates to offset the downturn. European economies will be hardest hit given the high gas and utility bills, although have come down lately from milder temperatures. Eastern European issuers have been particularly affected by this.

We anticipate a continued tight monetary policy and with interest rates having a higher floor not seen since the European debt crisis in 2012. This means that solvency and cash flow coverage will be ever more relevant and issuers who appeared sustainable only due to low interest rates would need to make the necessary adjustments in order to appear robust and compelling in a higher rate environment or face substantially higher refinancing rates. This has been an ever present theme throughout 2022 for EM and has to a certain extent been reflected in cash prices for several weaker corporates and countries. 2023 might bring more issuers to this camp, but we believe that it is not a systemic EM problem and we would argue that EM discounted more pain than other credit markets already.

More robust EM countries have notable tailwinds. While the US FED as mentioned hiked rates considerably, several EM countries like Brazil, Mexico and Hungary hiked more and earlier on providing a healthy cushion. Moreover, China's reopening will provide positive growth impulses across EM. Though we note that Chinese growth structurally will be lower, the EM growth momentum will benefit from increases in the credit impulse and the reopening. For the same reason, we want to remain positioned against commodity exporters and producers – notably those within commodities for the green transition.

Fundamentally, credit qualities for most EM corporates remain sound with low leverage and solid

profitabilities. At the same time, many EM issuers have used the low interest rate years to extend maturities meaning 2023 does not have a maturity wall to climb. While EM broadly could sustain a period with no market access, it is our expectation for bond markets to reopen in 2023, although we expect net supply to be balanced for the year.

Looking at the past 20 years EM credit spreads we find prevailing spreads to be close to median levels. This is supported when regressing energy prices versus credit spreads which also indicate fair pricing. Risks remain for lower commodity prices with increasing recession fears which would lead to higher credit spreads. However, our base case remains that energy prices and metals important for the future will have higher floor prices given recent years lack of investments within the energy sector and disproportionate demand for transitioning metals.

These expectations seem to a large extent to reflect consensus in the market leading to an expectation of 2023 providing better returns than the past two years. Our experience, however, tells us that consensus rarely is right and beyond the mentioned risk factors, local elections and geopolitics remain jokers in 2023. This could tilt markets in both directions, but elections in Argentina, Nigeria and Turkey could surprise investors positively in 2023.

As mentioned, we sadly do not envision a near term solution to the war in Ukraine. At the same time, we believe the world to an increasing extent will be split by two economic blocks with China and the US leading each side. This will continue to affect global trade and lead to geopolitical tensions, not least in the South China Sea. A number of EM countries could, however, benefit from the rivalry through investments and nearshoring of production just as the latest interest for the African continent is a sign of.

We expect 2023 to bring positive returns based on a higher effective portfolio rate going into the year although we do expect volatility over the year. While we expect overall credit spreads to end the year at unchanged levels, we expect credit selection to be paramount for returns and continue to prefer BBBs and the better part of HY.

Kind regards,

Chresten Hagelund and Søren Bertelsen

BI Asset Management Fondsmæglerselskab A/S "BankInvest"

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