INVL GLOBAL EMERGING MARKETS BOND SUBFUND

December 2021

STRATEGY

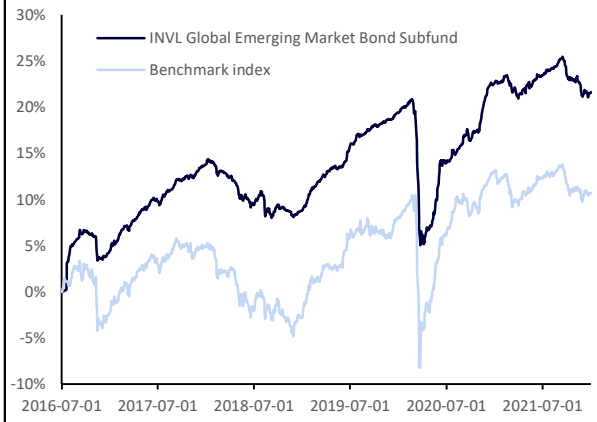
The objective of INVL Global Emerging Markets Bond Subfund is a maximum total return, consistent with preservation of invested capital. Focused on hard-currency sovereign and corporate debt securities in Emerging Markets, the fund aims to capture higher yields and growth potential in rapidly developing economies.
The fund is restricted to buying EUR and USD denominated securities only, while at the same time hedging the USD risk, providing its investors the return in EUR.
Recommended investment term – minimum 2 years.

FACTS

Management company	INVL Asset Management
ISIN code	LTIF00000666
Inception date	2016-07-01
Minimum investment	EUR 0
AUM, EUR M	8,1
Strategy AUM, EUR M	267
Management fee	1,25%
Currency	EUR
Countries of distribution	Lithuania, Sweden, Finland, Norway

For more information on the fund (prospectus, benchmark, results) please click on the link below:
https://www.invl.com/en/investment/mutual-funds/invl-global-emerging-markets-bond-subfund/fund-information/

RESULTS



	Fund	Benchmark ***
Return YTD	-0,9%	-2,1%
Return 1Y	-0,9%	-2,1%
Return 3Y	11,8%	13,9%
3 year annualised return	3,8%	4,4%
Return since inception	21,6%	10,7%
Volatility (St. deviation)*	2,9%	5,4%
Duration	4,5	6,6
YTM	4,6%	3,9%
Sortino ratio**	0,4	0,4

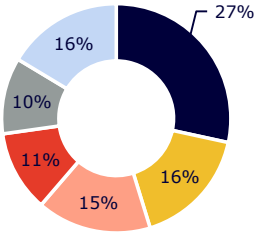
FUND MANAGER COMMENT

In December INVL Global Emerging Markets Bond subfund unit's value increased by 0.4% but has slightly underperformed against the benchmark which printed a gain of 0.7%. Nevertheless, over the entire year of 2021, the fund managed to outperform the benchmark by a decent 1.2% margin (yearly returns were -0.9% and -2.1% respectively) and exhibited lower volatility due to underweight duration and concentration on strong high-quality issuers.

As inflation continued its surge (November year-on-year inflation was 6.8% and 4.9% in US and Eurozone respectively) to levels not seen in several decades, markets and policymakers were forced to react. FED has announced that tapering pace could be doubled and that several interest rate hikes could be expected over the next year (markets priced 3 hikes) – projected central bank policy normalization and weaker future growth expectations led to a flatter US yield curve, meaning that long term bonds fared quite well. ECB, on the other hand, only announced a gradual reduction to its bond purchases over 2022 with no plans of interest rate hikes, resulting in weaker performance of eurozone sovereign bonds along the entire curve (as ECB is perceived as more dovish, it could find it harder to counter inflationary pressures).
The fund's monthly performance was weaker against the benchmark due to underweight in long duration sovereign issues with lower ratings which appreciated significantly (countries such as Argentina, Angola, and Suriname) and correlated with riskier equity markets. Moreover, EM central banks carried on with the tightening cycle and pursued further interest rate hikes to be ahead of the US – Brazil (+1.5%), Mexico (+0.5%) and Russia (+1.0%) have raised their rates. The only exception once again was Turkey as it cut interest rates from 15% to 14% and President Erdogan continued his attacks on interest rate hikes while December year-on-year inflation skyrocketed to 36.1%. Although stabilized towards the end of the month with introduction of a new compensation mechanism which should help to partly curb the inflation and currency depreciation, Ulker and Turk Telekom were the worst monthly performers. Best performers were Latin American issuers which rebounded quite significantly – Brazil sovereign and Hunt Oil Peru bond prices increased the most followed by Ivory Coast which ended the month in positive after a rebound from a dip that was caused by the emergence of Omicron variant in Africa. The fund sold its position in Ukraine (avoiding another dip in the bond price) and Bulgarian Energy 28s bond. In addition, the fund switched its position in Kingdom of Saudi Arabia 29s to Saudi Aramco 29s to capture elevated yield differential. Fund's YTM after hedge is about 4.6% for a duration of 4.5 years, which is lower than benchmark's duration.

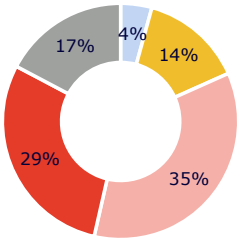
**Standard deviation is used to measure risk. Standard deviation is an indicator that measures how strongly fund's daily return deviates from its mean. The lower the standard deviation the lower the fund's risk. The standard deviation value corresponds to the period shown in the historical returns graph.*
***Sortino ratio is used to measure the risk-adjusted return of the portfolio. It is a modification of the Sharpe ratio but penalizes only those returns falling below required rate of return. Sortino ratio is obtained from Bloomberg which measures the ratio over a 3-year period at a daily granularity.*
****Benchmark index:*
50% JP Morgan Emerging Markets Bond Index (EMBI) Global Hedged Euro Index (JPEIGHEU Index);
50% JP Morgan Corporate EMBI Broad Hedged Level in EUR (JBBSHEUR Index).

BREAKDOWN OF INVESTMENTS



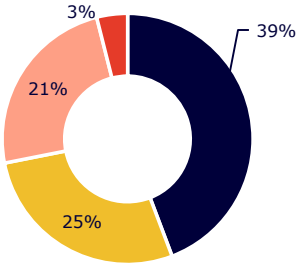
BY SECTOR

- Government
- Consumer Staples
- Financials
- Real Estate
- Energy
- Other



BY DURATION

- < 1 year
- 1-3 years
- 3-5 years
- 5-7 years
- > 7 years



BY COUNTRY

- Central and Eastern Europe
- Africa and Mideast
- Latin America
- Asia

TOP 10 PORTFOLIO HOLDINGS

MSPSJ 4 1/4 05/19/26	Real Estate	5,9%
AKRPLS 2 7/8 06/02/26	Real Estate	5,1%
GEOCAP 6 1/8 03/09/24	Financials	4,6%
ARAGVI 8.45 04/29/26	Consumer Staples	4,5%
PTABNK 4 1/8 06/30/28	Government	4,4%
AZERBJ 5 1/8 09/01/29	Government	4,2%
DOMREP 4 7/8 09/23/32	Government	4,2%
ULKER 6.95 10/30/25	Consumer Staples	4,2%
SNSPW 2 1/2 06/07/28	Materials	4,1%
CSOLNO 6 02/03/27	Consumer Staples	4,1%

REASONS TO INVEST

• Historically, Emerging market economies have been growing almost twice as fast as Developed markets.
• Government debt levels in emerging markets are twice as low as in developed countries.
• High active share investing into up to 25 most attractive investments by identified market mispricings, EUR and USD issues arbitrage and off-benchmark opportunities while avoiding certain issuers.
• Relatively low volatility due to investments in shorter duration and low indebted as well as higher credit rated government and off-benchmark picks.
• Combination of only hard currency (USD risk hedged to EUR) sovereign and corporate debt ensures attractive yield, while limited credit and duration risk provides for low volatility.

COMPANY

INVL Asset Management is a boutique asset management company that offers a range of CEE-focused investment products since 2004.
Team of ten portfolio managers, based in Vilnius, Lithuania (headquarters) and Riga, Latvia, use primarily fundamental value, bottom up approach and manage over 1 billion EUR in assets. Being nimble and highly competitive, INVL funds consistently rank high in international rankings.
We adhere to the UN Principles for Responsible Investment (PRI) and are supervised by the Central bank of Lithuania.

CONTACT

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