INVL GLOBAL EMERGING MARKETS BOND SUBFUND

February 2022

STRATEGY

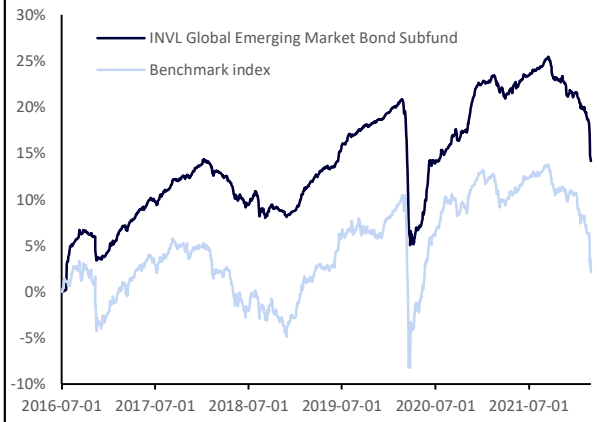
The objective of INVL Global Emerging Markets Bond Subfund is a maximum total return, consistent with preservation of invested capital. Focused on hard-currency sovereign and corporate debt securities in Emerging Markets, the fund aims to capture higher yields and growth potential in rapidly developing 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	7,1
Strategy AUM, EUR M	255
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



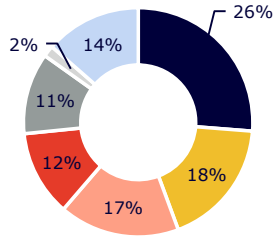
	Fund	Benchmark ***
Return YTD	-6,1%	-7,8%
Return 1Y	-6,7%	-7,7%
Return 3Y	2,0%	0,5%
3 year annualised return	0,7%	0,2%
Return since inception	14,2%	2,1%
Volatility (St. deviation)*	3,0%	5,5%
Duration	4,6	6,4
YTM	6,3%	3,7%
Sortino ratio**	0,3	0,4

FUND MANAGER COMMENT

Both bond and equity markets experienced a tough month - in February INVL Global Emerging Markets Bond subfund unit's value decreased by 4.6% but managed to outperform the benchmark which printed an even larger loss of 5.4%. Up until 24th of February markets continued to be worried about spiraling inflation and repeated hawkish tone coming from the FED and ECB which could put fragile economic growth at jeopardy. All of that paled when Russian military invaded the territories of Ukraine with devastating attacks accompanied by a series of Kremlin's propagandistic and unfounded claims, accusations, and statements. While Putin probably expected to invade Ukraine and see a divided West unable to make any decisions, EU and the US acted quickly and imposed harsh economic sanctions which included the halting of Nord Stream 2 project, freezing of CBR assets denominated in hard currencies, disconnection of multiple Russian and Belarusian banks from the SWIFT system, sanctioning of many Russian oligarchs and companies. In addition, a bunch of large multinational companies fled from Russia (such as BP, Samsung, Apple etc.) not wanting anything to do with the country. Not surprisingly, Russian bond and equity markets collapsed to a bare minimum while Ukrainian bonds were also negatively impacted by the military invasion and fell to highly distressed levels. Bonds of other CEE countries (even EU and NATO members') were also sharply negatively affected by capital outflows from the region most susceptible to a potential spread of geopolitical tensions although there are currently no direct dangers for them. Capital outflows were seen from Moldova, Romania, Poland, and the Baltics – we see it as somewhat of a buying opportunity. At the same time risk-free instruments such as German Bund or US Treasury have rallied.
Not surprisingly, among fund's positions, the worst monthly performers were either Ukrainian/CEE names such as Kernel Holding, Aragvi Holding and Romanian sovereign bonds as well as higher beta picks with longer duration which include the Dominican Republic and Ivory Coast. Given the fund's heavily overweight exposure to CEE region at around 50% of total portfolio (while in the benchmark it constitutes merely above 10% of total weight) and majority of geopolitical risks rising from the latter region, it was a very pleasant fact that due to careful bond selection procedure, sufficient diversification strategy, light positioning in Ukraine and no positions in Russian or Belarusian bonds, the fund still managed to perform largely in line and even outperform the benchmark. On the bright side, several positions which were sold off in the end of 2021 seem to have reached the bottom and stood the most recent rout of volatility very well – among them were Bahamas sovereign bonds as well as Sibanye-Stillwater and Ulker. Over the course of the month, the fund mostly did some repositioning – reduced exposure in DDM Debt and Eastern and Southern African Trade and Development Bank's bonds and fully sold the holdings of Turk Telekom. Fund's YTM after hedge is about 6.3% for a duration of 4.6 years, which is still lower than benchmark's duration.

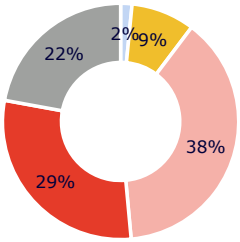
**Standard deviation is used to measure risk. Standard deviation is an indicator that measures how strongly fund's daily return deviates from its mean. The lower the standard deviation the lower the fund's risk. The standard deviation value corresponds to the period shown in the historical returns graph.*
***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



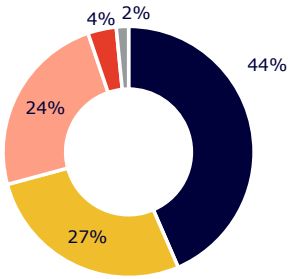
BY SECTOR

- Government
- Consumer Staples
- Financials
- Real Estate
- Energy
- Cash and cash equivalents
- Other



BY DURATION

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



BY COUNTRY

- Central and Eastern Europe
- Latin America
- Africa and Mideast
- Asia
- Cash and cash equivalents

TOP 10 PORTFOLIO HOLDINGS

ULKER 6.95 10/30/25	Consumer Staples	7,1%
MSPSJ 4 1/4 05/19/26	Real Estate	6,6%
AKRPLS 2 7/8 06/02/26	Real Estate	5,5%
GEOCAP 6 1/8 03/09/24	Financials	5,0%
ARAGVI 8.45 04/29/26	Consumer Staples	4,8%
AZERBJ 5 1/8 09/01/29	Government	4,7%
DOMREP 4 7/8 09/23/32	Government	4,4%
CSOLNO 6 02/03/27	Consumer Staples	4,3%
SNSPW 2 1/2 06/07/28	Materials	4,3%
MOGOFI 9 1/2 10/18/26	Financials	4,3%

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.

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