INVL GLOBAL EMERGING MARKETS BOND SUBFUND

March 2022

STRATEGY

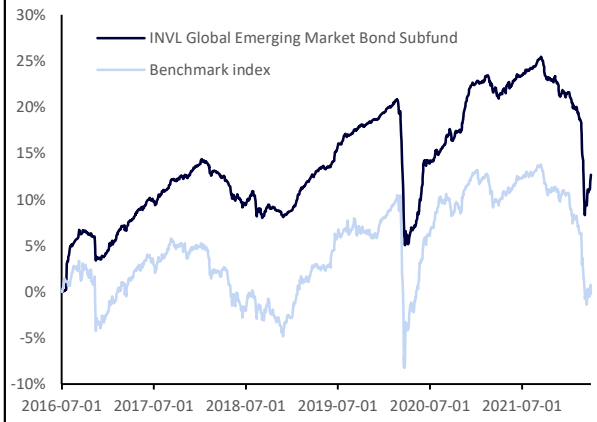
The objective of INVL Global Emerging Markets Bond Subfund is a maximum total return, consistent with preservation of invested capital. Focused on hard-currency sovereign and corporate debt securities in Emerging Markets, the fund aims to capture higher yields and growth potential in rapidly developing 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	7,0
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



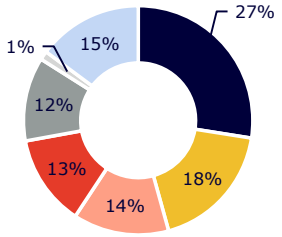
	Fund	Benchmark ***
Return YTD	-7,3%	-9,9%
Return 1Y	-7,0%	-9,0%
Return 3Y	0,0%	-2,9%
3 year annualised return	0,0%	-1,0%
Return since inception	12,7%	-0,2%
Volatility (St. deviation)*	3,2%	5,6%
Duration	4,7	6,2
YTM	6,0%	4,7%
Sortino ratio**	0,3	0,4

FUND MANAGER COMMENT

In March INVL Global Emerging Markets Bond subfund unit's value decreased further by 1.3% but gained traction in the second half of the month and ended up outperforming the benchmark which printed an even larger monthly loss of 2.3%. As markets digested global implications of a war between Ukraine and Russia, selling pressure was felt both in equity and bond markets in the beginning of the month, especially in the CEE region. However, situation has diverged towards the second half of the month - equity markets rebounded on limited expected war impact and ability to partially shelter capital from inflation. On the contrary, as rising inflation expectations were further fueled by a steep rise in commodity prices not seen since 2011, bond market sell-off continued. Yields had been rising both in the US (10-year US YTM went up from 1.83% to 2.34%) and eurozone (10-year Bund YTM went from 0.14% to 0.55%) throughout the month and US yield curve even inverted, suggesting a potential recession in upcoming quarters. Nevertheless, yields are now catching up with inflation expectations and highly negative real interest rates have become more neutral and might be a buying opportunity. Over the last month, EM bond markets were more correlated with the equity market and rebounded in the second half of March instead of replicating a sell-off in DM bonds.
Among fund's positions, Hunt Oil Peru (active in natural gas production and supported by a commodity rally), Akropolis (rebounded due to return of capital into the CEE) and Kernel (as negotiations had some progress and company reported no significant damage to its fixed assets, bond found some support and partially recouped losses) were the top performers. Fund managed to outperform the benchmark significantly during March due to its overweight in CEE positions (50% of portfolio vs 10% weight in the benchmark) which rebounded swiftly when capital flows normalized and buying interest appeared at lower price levels across the region. Over the course of the month, the fund sold DDM Debt and reduced Eleving Group bond exposure which seemed more vulnerable to market turbulence. In addition, fund booked profit in Sibanye-Stillwater position and alternatively increased its exposure in Synthos and Romania sovereign bonds at relatively attractive levels. In addition, fund invested into Alsea bonds which is a multi-brand restaurant operator active in Mexico, Latin America and Europe. It operates under brands such as Domino's, Burger King, Starbucks and offers an attractive reopening bet. Fund's YTM after hedge is about 6.0% for a duration of 4.7 years, which is still somewhat lower than benchmark's duration.

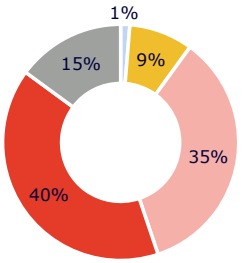
**Standard deviation is used to measure risk. Standard deviation is an indicator that measures how strongly fund's daily return deviates from its mean. The lower the standard deviation the lower the fund's risk. The standard deviation value corresponds to the period shown in the historical returns graph.*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



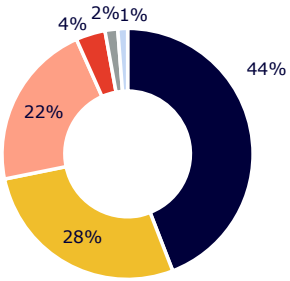
BY SECTOR

- 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
- Other
- Cash and cash equivalents

TOP 10 PORTFOLIO HOLDINGS

ULKER 6.95 10/30/25	Consumer Staples	7,0%
MSPSJ 4 1/4 05/19/26	Real Estate	6,7%
AKRPLS 2 7/8 06/02/26	Real Estate	6,1%
SNSPW 2 1/2 06/07/28	Materials	6,1%
GEOCAP 6 1/8 03/09/24	Financials	5,0%
ROMANI 3.624 05/26/30	Government	4,7%
AZERBJ 5 1/8 09/01/29	Government	4,7%
ARAGVI 8.45 04/29/26	Consumer Staples	4,5%
DOMREP 4 7/8 09/23/32	Government	4,4%
PEMEX 6.7 02/16/32	Energy	4,4%

The Fund does not invest and does not have exposure to Russian and Belarusian bonds

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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