INVL GLOBAL EMERGING MARKETS BOND SUBFUND

July 2022

STRATEGY

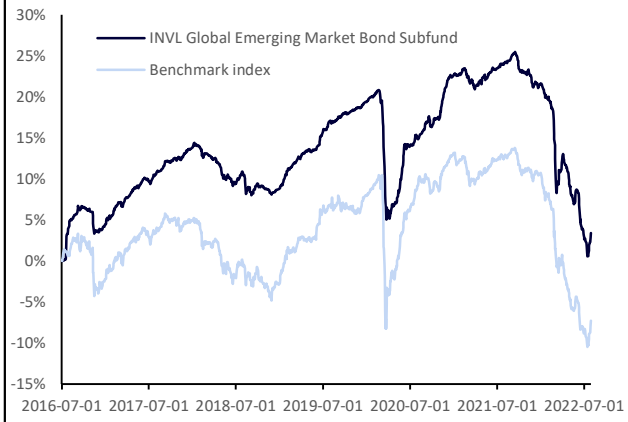
The objective of INVL Global Emerging Markets Bond Subfund is a maximum total return, consistent with preservation of invested capital. Focused on hard-currency sovereign and corporate debt securities in Emerging Markets, the fund aims to capture higher yields and growth potential in rapidly developing 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	6,8
Strategy AUM, EUR M	274
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



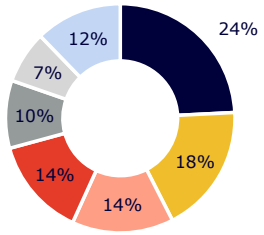
	Fund	Benchmark ***
Return YTD	-15,0%	-16,2%
Return 1Y	-16,6%	-17,6%
Return 3Y	-11,6%	-13,2%
3 year annualised return	-4,0%	-4,6%
Return since inception	3,4%	-7,3%
Volatility (St. deviation)*	3,3%	5,6%
Duration	4,2	5,7
YTM	7,7%	4,6%
Sortino ratio**	0,3	0,4

FUND MANAGER COMMENT

July was an interesting and quite polarizing month for bond markets - INVL Global Emerging Markets Bond subfund finished the month on a positive note – unit value increased by 0.5% but has slightly underperformed against the benchmark which printed a stronger monthly return of 1.7%. It was mostly a result of our overweight positioning towards CEE corporates which so far lagged against the broad bond market but should find support soon.
Although inflation continued to soar and labor market remained tight, implying that FED should carry on with its aggressive tightening, market participants looked one step further and turned their heads to disappointing growth data (in Q2 US GDP contracted by -0.9% instead of expected 0.6% growth), worsening PMI survey scores and FED's narrative that rates should be approaching neutral territory soon. All these factors were interpreted as good news for bond markets since they theoretically mean that FED should stop the tightening and may potentially even embark on interest rate cuts next year should economy struggle and experience painful recession. Similar sentiment was seen in Europe – ECB delivered its first interest rate hike in over a decade (raising rates from -0.5% to 0%) bringing forward more hawkish hikes to tame inflation. As higher probability of default was priced in and more dovish stance of central banks could be seen down the road, yields declined substantially - both corporate and sovereign bonds have rallied over the month. Nevertheless, due to dried out liquidity during holiday season, CEE markets were impacted more, and price action lagged the moves that were seen in the West. We expect to see an official catch-up in the upcoming weeks once liquidity recovers and actual transactions happen.
One of the key factors for monthly underperformance was fund's overweight exposure towards CEE corporates which did not move so closely in tandem with Western bonds due to much lower liquidity (although generally screen prices do not seem to represent a real market which is much higher) or region-related risks. Among fund's positions, top performers were higher-beta and longer duration bonds such as Dominican Republic 2032, Indofood 2031, Ecopetrol 2030. However, Kernel (prospects of longer war), Bahama (significant debt burden and potential risk of approaching hurricane season), MAS Real Estate (very low liquidity) were main negative contributors. Over the month, besides a few balancing trades, several CEE issuers came to the primary market and fund participated in two bond issues. Maxima Grupe (largest food retail operator in the Baltics) decided to tender its 2023 issue and replace it with new 2027 bond pricing at an attractive 6.5% YTM level for BB+ issue. Also, NLB Group (largest Slovenian bank highly active in the Balkan region) issued a 3-year MREL bond at 6% YTM and paid substantial new issue premium in order to raise enough capital smoothly. Fund's YTM after hedge is about 7.7% for a duration of 4.2 years, which is still somewhat lower than benchmark's duration.

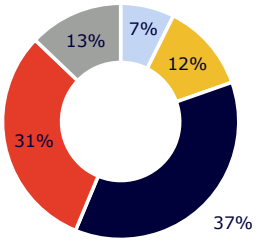
**Standard deviation is used to measure risk. Standard deviation is an indicator that measures how strongly fund's daily return deviates from its mean. The lower the standard deviation the lower the fund's risk. The standard deviation value corresponds to the period shown in the historical returns graph.*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



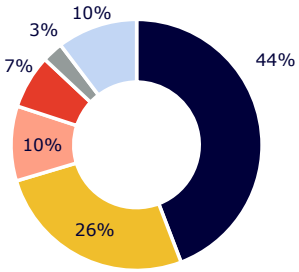
BY SECTOR

- Consumer Staples
- Government
- Energy
- Real Estate
- Financials
- 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	6,6%
AKRPLS 2 7/8 06/02/26	Real Estate	5,9%
SNSPW 2 1/2 06/07/28	Materials	5,7%
MSPSJ 4 1/4 05/19/26	Real Estate	5,6%
DOMREP 4 7/8 09/23/32	Government	4,7%
CSOLNO 6 02/03/27	Consumer Staples	4,3%
PEMEX 6.7 02/16/32	Energy	4,2%
ARAGVI 8.45 04/29/26	Consumer Staples	4,2%
ROMANI 3.624 05/26/30	Government	4,2%
MAXGPE 6 1/4 07/12/27	Consumer Staples	4,0%

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.

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