INVL GLOBAL EMERGING MARKETS BOND SUBFUND

August 2022

STRATEGY

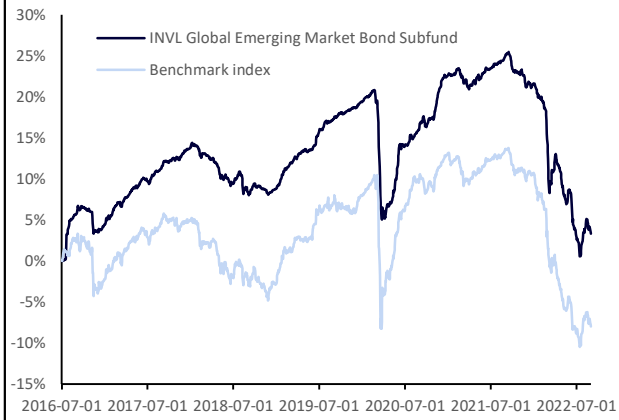
The objective of INVL Global Emerging Markets Bond Subfund is a maximum total return, consistent with preservation of invested capital. Focused on hard-currency sovereign and corporate debt securities in Emerging Markets, the fund aims to capture higher yields and growth potential in rapidly developing 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	6,1
Strategy AUM, EUR M	289
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



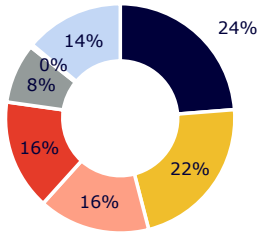
	Fund	Benchmark ***
Return YTD	-15,0%	-16,9%
Return 1Y	-17,3%	-19,0%
Return 3Y	-11,9%	-14,1%
3 year annualised return	-4,1%	-4,9%
Return since inception	3,3%	-8,0%
Volatility (St. deviation)*	3,3%	5,6%
Duration	4,2	5,7
YTM	8,7%	4,9%
Sortino ratio**	0,3	0,4

FUND MANAGER COMMENT

August was yet another negative month for bond and equity markets, however, INVL Emerging Europe bond subfund held the ground and finished the month with a mildly positive 0.1% return. Benchmark index, on the other hand, declined by 1.2% and underperformed against the fund.
Last month we saw some strong comments by macroeconomic policy makers where it was communicated that higher interest rate environment is here to stay. Moreover, as global central banks stuck with their stance to fight off inflation and bring it under control even if macroeconomic conditions were to worsen materially, such turn of events resulted in recalibration of investor risk acceptance levels. Therefore, markets took a turn to the south in the second half of August. Just before the beginning of August, FED delivered yet another 0.75% interest rate hike while ECB was expected to deliver a record 0.75% hike in its September meeting. Also, high energy prices continue to keep the price pressure high, especially in Europe which continues to look for alternative sources of gas supply in a bid to diversify away from dependence on Russia, therefore, ECB's task to tackle increasing prices is further complicated. Elsewhere, even though Emerging Market central banks were way ahead with the start of their tightening policies and peak interest rates already seem in sight over the next few quarters, multiple economies carried on with interest rate hikes: i.e. countries like Brazil (+0.5%), Mexico (+0.75%), Philippines (+0.5%) and Romania (+0.75%) increased borrowing costs in local currencies to continue to put pressure on inflation.
Lower average portfolio duration and focus on decent credit quality corporates which experienced a sharp rebound were some of key factors behind monthly outperformance. Among fund's positions, top monthly performers were Camposol (bond price recovered as previous month's sell-off was caused by a technical seller), Hunt Oil (strong operating results from natural gas exports), Alsea (strong post-covid rebound in operations and results) and Ivory Coast (this specific bond issue was relatively more heavily sold off in previous periods). However, Ulker (although results were quite supportive, buyers are still rather hesitant), Aragvi (fears of potential russian offense in the territories of Moldova) and Romanian sovereign bonds were main negative contributors. Over the month, besides balancing trades, fund sold its holdings in Eleving Group bonds and bought Colombia sovereign bonds which were sold off over previous quarters. Moreover, the fund has participated in the primary placement of 2-year Luminor (one of the leading Baltic commercial banks) senior unsecured bond which was issued at a very attractive 5% yield (in EUR). The position was exited as bond performed well in the secondary market. Fund's YTM after hedge is about 8.7% for a duration of 4.2 years, which is still somewhat lower than benchmark's duration.

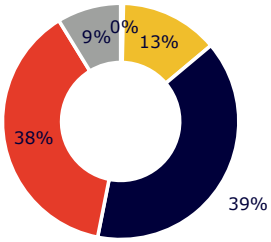
**Standard deviation is used to measure risk. Standard deviation is an indicator that measures how strongly fund's daily return deviates from its mean. The lower the standard deviation the lower the fund's risk. The standard deviation value corresponds to the period shown in the historical returns graph.*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



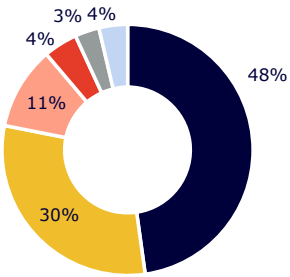
BY SECTOR

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