INVL GLOBAL EMERGING MARKETS BOND SUBFUND

September 2022

STRATEGY

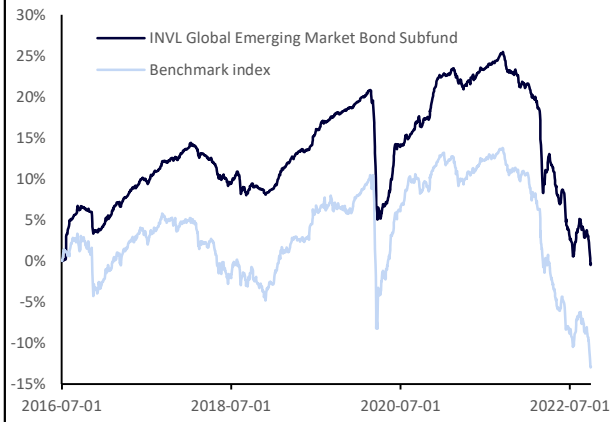
The objective of INVL Global Emerging Markets Bond Subfund is a maximum total return, consistent with preservation of invested capital. Focused on hard-currency sovereign and corporate debt securities in Emerging Markets, the fund aims to capture higher yields and growth potential in rapidly developing 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	5,9
Strategy AUM, EUR M	285
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



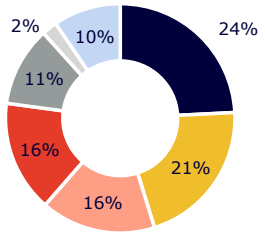
	Fund	Benchmark ***
Return YTD	-18,1%	-21,4%
Return 1Y	-19,3%	-22,1%
Return 3Y	-15,6%	-18,2%
3 year annualised return	-5,5%	-6,5%
Return since inception	-0,4%	-12,9%
Volatility (St. deviation)*	3,4%	5,6%
Duration	4,1	5,7
YTM	8,7%	4,7%
Sortino ratio**	0,3	0,4

FUND MANAGER COMMENT

September was yet another negative month for bond and equity markets. Nevertheless, INVL Global Emerging Market bond subfund performed relatively well in comparison – fund unit's value declined by 3.6% while benchmark fell significantly harder by 5.3%. Fund's outperformance was helped by focus on good quality shorter duration corporate bonds instead of high duration sovereign fixed income securities which contributed the most to a monthly drop.
Last month was marked with financial market participants' capitulation and consequential acceptance of strong comments sent by macroeconomic policy makers in the previous month that higher interest rate environment is here to stay, and no one should expect interest rate cuts should economic conditions were to soften. Moreover, as August inflation reached 8.3% in the US and somewhat overshot the expectations – markets took that as an additional scare that major central banks will not stop any time soon until they see an easing in inflation rates which is the main public enemy now. Both FED and ECB hiked their interest rates by a whopping 0.75% to 3.25% and 0.75% respectively. Further, rather extreme, increases are down the line and expected to happen in the next meetings. Turmoil in UK Gilt market has also caused a lot of chaos across the fixed income world and central bank intervention was required to bail out large local pension funds from receiving margin calls. If EM central banks began hiking interest rates aggressively way ahead of FED and ECB, now the sentiment seems to be slowing, for example, Brazil kept its policy rate at 13.75% as inflation is easing substantially.
Fund portfolio's focus on shorter duration CEE corporates has helped the fund to outperform the benchmark index which is not only composed of higher duration bonds but also has much higher weights in Latin American (more linked to USD curve moves, so monthly decline was exacerbated by US inflation exceeding expectations) and Asian bonds (Chinese real estate developers continue the long and painful struggle) which underperformed significantly. The fund is also underweight in sovereign bonds which usually have longer maturity and declined the most last month. Moreover, Ukraine's advance and recent success in a war against Russia also resulted in positive sentiment for most-affected bonds and those that are geographically closest. Not surprisingly, Kernel Holding, Aragvi and MAS Real Estate were top contributors to the performance with positive monthly returns. Underperformers were longer duration high-beta bonds such as Pemex 2032, Romani 2030, Mex 2033. Over the month, besides weight rebalancing trades, fund sold its position in Adani Ports as relative pricing seemed to be out of value, so relative profit was realized. Regarding additions, fund has participated in Bank Gospodarstwa Krajowego 5Y EUR-denominated bond issue which was priced close to 4% and placed well above the sovereign curve although the issuer is government-owned, and liabilities are guaranteed by the state. Fund's YTM after hedge is about 8.7% for a duration of 4.1 years, which is still somewhat lower than benchmark's duration.

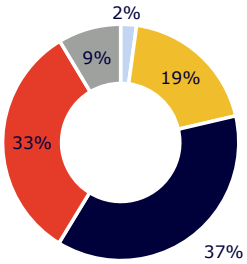
**Standard deviation is used to measure risk. Standard deviation is an indicator that measures how strongly fund's daily return deviates from its mean. The lower the standard deviation the lower the fund's risk. The standard deviation value corresponds to the period shown in the historical returns graph.*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



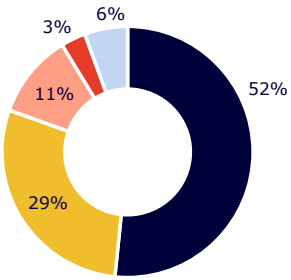
BY SECTOR

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

TOP 10 PORTFOLIO HOLDINGS

ULKER 6.95 10/30/25	Consumer Staples	7,6%
AKRPLS 2 7/8 06/02/26	Real Estate	6,8%
MSPSJ 4 1/4 05/19/26	Real Estate	6,6%
SNSPW 2 1/2 06/07/28	Materials	6,3%
ARAGVI 8.45 04/29/26	Consumer Staples	5,2%
ROMANI 3.624 05/26/30	Government	4,9%
MAXGPE 6 1/4 07/12/27	Consumer Staples	4,7%
PEMEX 6.7 02/16/32	Energy	4,3%
CSOLNO 6 02/03/27	Consumer Staples	4,2%
HNTOIL 6 3/8 06/01/28	Energy	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 investment management and life insurance group is a boutique asset management and life insurance 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 1.7 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

INVL investment management and life insurance group

Gyneju 14, 01109 Vilnius, Lithuania

+370 610 18648

vaidotas.rukas@invl.com

http://www.invl.com