INVL GLOBAL EMERGING MARKETS BOND SUBFUND

February 2021

STRATEGY

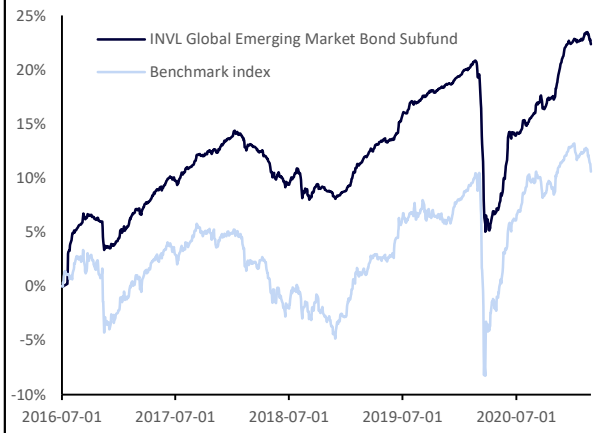
The objective of INVL Global Emerging Markets Bond Subfund is a maximum total return, consistent with preservation of invested capital. Focused on hard-currency sovereign and corporate debt securities in Emerging Markets, the fund aims to capture higher yields and growth potential in rapidly developing 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	8,7
Strategy AUM, EUR M	201
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



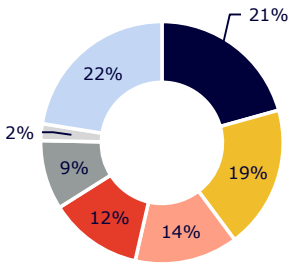
	Fund	Benchmark ***
Return YTD	-0,3%	-2,3%
Return 1Y	2,5%	1,6%
Return since inception	22,4%	10,6%
Volatility (St. deviation)*	3,0%	5,8%
Duration	3,8	6,7
YTM	3,2%	4,0%
Sortino ratio**	0,3	0,2

FUND MANAGER COMMENT

In February INVL Global Emerging Markets Bond subfund unit's value has fallen by 0.3% but was much more resilient than the benchmark which experienced a 1.5% fall. February was a month of two halves. First part of the month was positive for both - bond and equity markets, as vaccination pace has been accelerating across the globe and economic growth expectations were strong. However, in the second half of the month bond markets fell sharply (the US 10-year Treasury yield rose by over 35 bps, impacting prices of EM bonds negatively) on market participants' fear of rising inflation expectations and increasing probability of passing the 1.9 trillion USD fiscal stimulus package. In addition, J. Powell indicated that FED is not yet worried about inflation, as the economy still has a long way to go until full recovery and no imminent plans to reduce the pace of bond purchases are foreseen. The news disappointed market participants because the stance was perceived as not "dovish enough" to prevent further increases in yields.
In the EM government bond universe, Ecuador was the worst performer as left-wing candidate A. Arauz won the first round of the election with a significant lead over other, more market-friendly, candidates. Moreover, 2nd and 3rd place candidates got engaged in a legal dispute over the vote count, therefore, probability of co-operation between them has diminished further. Among the investment-grade issuers, Peru was the worst performer – it is one one the most impacted South American countries by Covid-19, and it was also shaken by a scandal called "Vaccine-gate", with reports claiming that almost 500 senior officials, including the former president Vizcarra, jumped the queue and received vaccines.
Despite the weakness in the bond markets, corporate bonds and high yield issues remained relatively strong and outperformed government bonds. Such situation has helped the Fund, as a significant part of the portfolio is invested in corporate bonds. Fund continued the switch from NE Property bonds to Atrium Real Estate 27s, which offer substantial YTM premium for a real estate portfolio with conservative leverage. Fund's top performers were corporate issuers – Credito Real (which was also the best performer in December and January) and Frigorifico Concepcion. Main underperformers were Ukraine 30s bond and Petrobras 30s. Ukraine retraced mostly due to a delay in discussions with the IMF and generally weak momentum for long government issues. As for Petrobras, President Bolsonaro fired the current CEO of Petrobras, raising fears of higher degree of government intervention in the company and a possible return to subsidization of diesel prices. Moreover, balance sheet clean-up and privatization of some Petrobras business lines could be paused.
Fund portfolio yield is about 3.2% in EUR, after hedging costs, with a duration of 3.8 years, which is significantly lower than the benchmark.

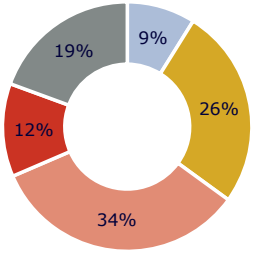
**Standard deviation is used to measure risk. Standard deviation is an indicator that measures how strongly fund's daily return deviates from its mean. The lower the standard deviation the lower the fund's risk. The standard deviation value corresponds to the period shown in the historical returns graph.*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



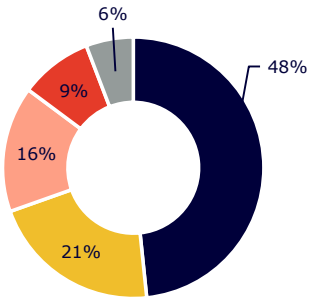
BY SECTOR

- Government
- Consumer Staples
- Financials
- Telecommunication Services
- 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	4,2%
ELLAKT 6 3/8 12/15/24	Industrials	4,0%
MACEDO 3.675 06/03/26	Government	3,9%
ARAGVI 12 04/09/24	Consumer Staples	3,8%
PPFARA 3 1/8 03/27/26	Telecommunication Services	3,8%
MEX 1 1/8 01/17/30	Government	3,4%
CREAL 5 02/01/27	Financials	3,4%
ECOPET 6 7/8 04/29/30	Energy	3,3%
OCPMR 5 5/8 04/25/24	Materials	3,2%
BHARTI 5.35 05/20/24	Telecommunication Services	3,2%

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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