INVL GLOBAL EMERGING MARKETS BOND SUBFUND

March 2021

STRATEGY

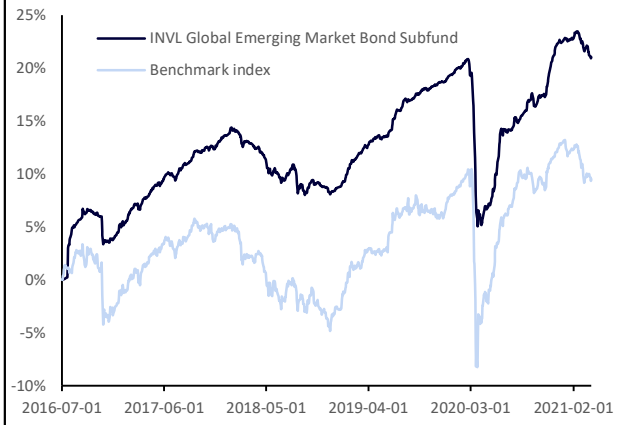
The objective of INVL Global Emerging Markets Bond Subfund is a maximum total return, consistent with preservation of invested capital. Focused on hard-currency sovereign and corporate debt securities in Emerging Markets, the fund aims to capture higher yields and growth potential in rapidly developing 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	8,8
Strategy AUM, EUR M	205
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



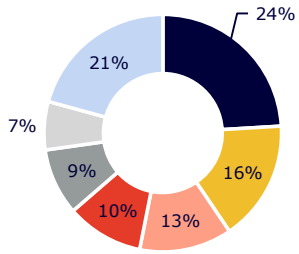
	Fund	Benchmark ***
Return YTD	-1,3%	-3,2%
Return 1Y	14,0%	13,5%
Return since inception	21,0%	9,5%
Volatility (St. deviation)*	3,0%	5,8%
Duration	4,0	6,7
YTM	3,4%	4,0%
Sortino ratio**	0,3	0,2

FUND MANAGER COMMENT

In March INVL Global Emerging Markets Bond subfund unit's value fell by 1.1%, slightly underperforming the benchmark which experienced a 1.0% decline. Nevertheless, since the beginning of the year, fund is outperforming the benchmark index quite significantly (-1.3% vs -3.2%).
March was a negative month for EM bonds. One of the reasons was a further sharp rise in US 10-year Treasury yield from 1.4% to 1.74%. As the pace of vaccinations was accelerating and $1.9 trillion stimulus package is already in the open, speculations of skyrocketing consumption and a sharp rebound in economic activity were fueled. On top of improving macroeconomic environment, health situation and fiscal stimulus, FED continued to fuel the economy with additional purchases keeping balance sheet at historically high levels. As a result of the latter, expected inflation jumped, sparking speculation that FED could trigger another taper tantrum if it decided to fight inflation, therefore, bond markets fell further. Likewise, EM bonds were pressured: along with rising borrowing costs in USD terms (significant portion of EM debt is in USD) dollar rose as well meaning that Emerging Markets must either deplete FX reserves or become more hawkish to keep exchange rates stable.
Another blow to the EM bond market was due to events in Turkey. President Erdogan fired the head of central bank who had been in the job for just four months and was responsible for restoring investors' confidence in the Turkish market after several rate hikes in hopes to tame inflation. Nevertheless, after Erdogan suddenly fired already third central bank chief since July 2019, it sent a signal that Turkey is more likely to return to its unorthodox policies. Turkish lira, bonds and equities plummeted heavily. Along with Turkey, Argentina fell on its struggling discussions with the IMF while Ghana's new issue with 4Y zero coupon bond was not taken well by investors. On the other hand, Sri Lanka was the top performer whose bonds jumped nearly 10% over the month on news that the People's Bank of China had approved a US$ 1.5 billion swap arrangement which Sri Lanka could draw on at any stage.
Unsurprisingly, fund's worst performing bonds were Turkish government and corporate issues while top performers were Aragvi Holding (on strong tailwinds in the commodity market and increased number of buyers) and Frigorifico Concepcion (upgraded from B- to B and saw some new buyers). The fund participated in the first issue of Greece's Public Power Corporation's 2026 bond issue which appreciated in the secondary market and fund took the opportunity to take profit by selling it. As international flights with the US have been renewed, fund added a new sovereign position – Bahamas 2032s which should see some recovery in inbound tourism while still offering a compelling 8% YTM.
Fund portfolio's YTM after hedge is about 3.4% for a duration of 4 years, which is significantly lower than the benchmark.

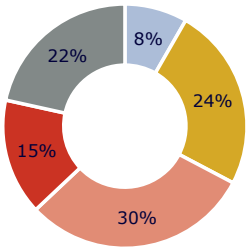
**Standard deviation is used to measure risk. Standard deviation is an indicator that measures how strongly fund's daily return deviates from its mean. The lower the standard deviation the lower the fund's risk. The standard deviation value corresponds to the period shown in the historical returns graph.*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



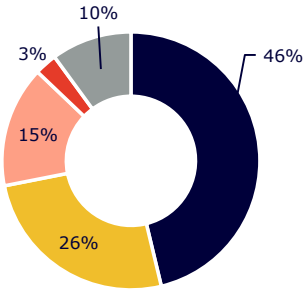
BY SECTOR

- Government
- Consumer Staples
- Financials
- Energy
- Telecommunication Services
- 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%
PETBRA 5.093 01/15/30	Energy	4,1%
ELLAKT 6 3/8 12/15/24	Industrials	4,1%
ARAGVI 12 04/09/24	Consumer Staples	4,0%
GEOCAP 6 1/8 03/09/24	Financials	4,0%
MACEDO 3.675 06/03/26	Government	3,9%
MEX 4 3/4 04/27/32	Government	3,9%
PPFARA 3 1/8 03/27/26	Telecommunication Services	3,6%
ATRSAV 2 5/8 09/05/27	Real Estate	3,6%
BAHAMA 8.95 10/15/32	Government	3,5%

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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