INVL GLOBAL EMERGING MARKETS BOND SUBFUND

April 2021

STRATEGY

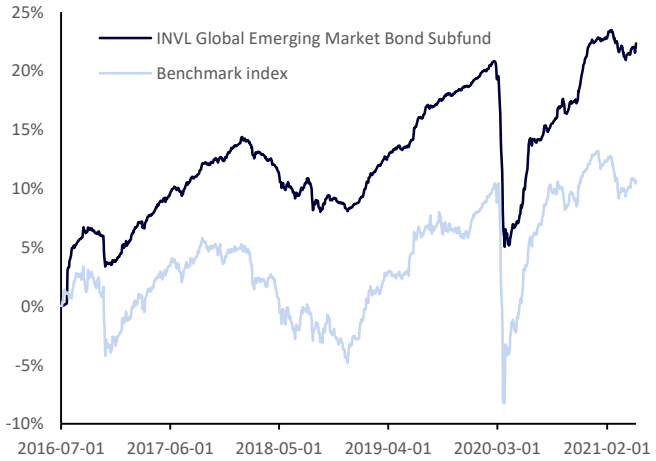
The objective of INVL Global Emerging Markets Bond Subfund is a maximum total return, consistent with preservation of invested capital. Focused on hard-currency sovereign and corporate debt securities in Emerging Markets, the fund aims to capture higher yields and growth potential in rapidly developing 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	9.0
Strategy AUM, EUR M	212
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%	-2.2%
Return 1Y	14.1%	11.7%
Return since inception	22.3%	10.7%
Volatility (St. deviation)*	3.0%	5.7%
Duration	4.2	6.7
YTM	3.9%	4.0%
Sortino ratio**	0.3	0.2

FUND MANAGER COMMENT

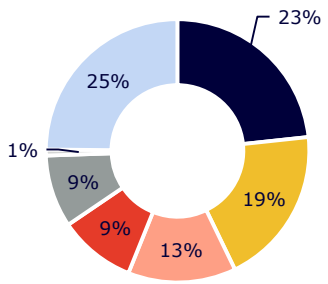
In April INVL Global Emerging Markets Bond subfund unit's value increased by 1.1% slightly outperforming the benchmark which climbed by 1.0%. Outperformance since beginning of the year is nearly 1.9% (-0.3% vs -2.2%).
April was a highly positive month for EM and CEE bonds. First, FED stuck to its rhetoric that the current buzz on inflation is a temporary blip and Chair Powell confirmed that tapering is still not on FED's agenda, not to mention rate hikes which should not happen at least until late 2022. As a result, bond markets got some breathing space and US 10-year Treasury yield retreated from 1.74% to 1.63%. Secondly, right cards fell for EM universe as a whole – Bloomberg Commodity Index jumped further by 8.3% in April (USD terms) while USD dollar depreciated due to rising trade deficits, providing reasons for EM debt to outperform and improve its sentiment.

Despite a generally positive month for EM sovereign and corporate debt and high return stories such as Ecuador (market-friendly conservative candidate unexpectedly won the presidential election) or Turkey (new head of Central Bank Kavcioglu kept interest rates intact at 19%), there were some turbulent names as well. Huarong Asset Management (China's biggest distressed debt investor) failed to provide its financial results fueling speculation that its financial health might be poor and that the majority shareholder – Chinese government – might not bail the company out. Similarly, Mexican non-bank lenders were under scrutiny after Alpha Holding reported an accounting error which could result in a total equity wipe-out. As Alpha's bonds declined by around 70 points and brought peers down with it (even though the case seemed isolated), we increased our position in Credito Real and took profit on the additional purchase as soon as the bond rebounded. Lastly, Peru corporates and sovereign bonds were under pressure after a leftist candidate Castillo appeared to hold a significant lead over a market-friendly competitor. Nevertheless, bonds rebounded after Castillo announced that as president, he would not pursue extreme agenda such as nationalization of core industries. The fund participated in the move by buying Minsur 24s bonds (one of the largest tin and copper producers in Peru) which have already increased nearly 2% in value. In addition to that, fund made some tactical switches as well – bought Adani Ports, Pemex, Empresas Publicas de Medellin bonds and sold Ecopetrol, Nemak issues.

Fund portfolio's YTM after hedge is about 3.9% for a duration of 4.2 years, which is still considerably lower than the benchmark.

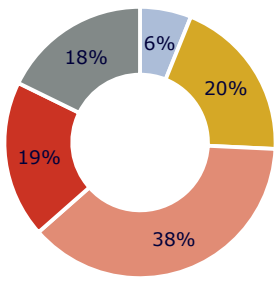
**Standard deviation is used to measure risk. Standard deviation is an indicator that measures how strongly fund's daily return deviates from its mean. The lower the standard deviation the lower the fund's risk. The standard deviation value corresponds to the period shown in the historical returns graph.*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



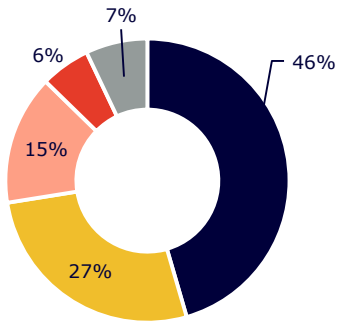
BY SECTOR

- Government
- Consumer Staples
- Financials
- Industrials
- 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

CREAL 5 02/01/27	Financials	4.3%
ULKER 6.95 10/30/25	Consumer Staples	4.1%
ELLAKT 6 3/8 12/15/24	Industrials	4.0%
PETBRA 5.093 01/15/30	Energy	4.0%
ARAGVI 8.45 04/29/26	Consumer Staples	3.8%
MACEDO 3.675 06/03/26	Government	3.8%
GEOCAP 6 1/8 03/09/24	Financials	3.8%
EEPPME 4 1/4 07/18/29	Utilities	3.8%
ARAGVI 12 04/09/24	Consumer Staples	3.7%
MEX 4 3/4 04/27/32	Government	3.6%

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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