INVL GLOBAL EMERGING MARKETS BOND SUBFUND

June 2021

STRATEGY

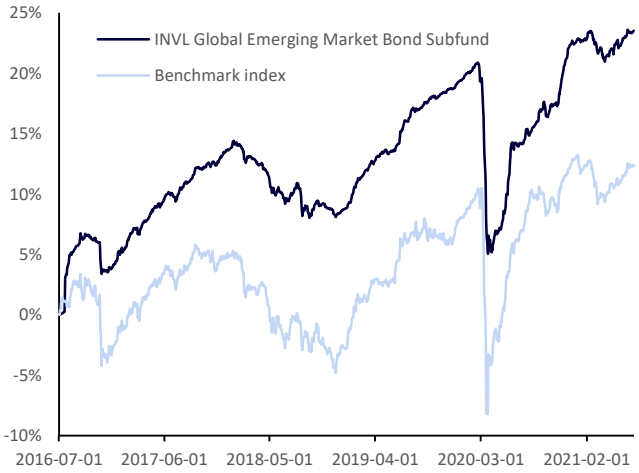
The objective of INVL Global Emerging Markets Bond Subfund is a maximum total return, consistent with preservation of invested capital. Focused on hard-currency sovereign and corporate debt securities in Emerging Markets, the fund aims to capture higher yields and growth potential in rapidly developing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



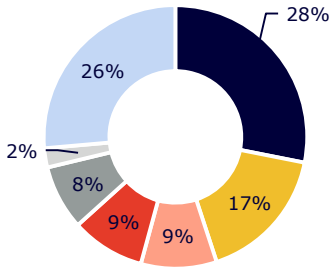
	Fund	Benchmark ***
Return YTD	0.7%	-0.7%
Return 1Y	8.4%	5.9%
Return 3Y	12.8%	14.6%
3 year annualised return	4.1%	4.6%
Return since inception	23.5%	12.4%
Volatility (St. deviation)*	2.9%	5.7%
Duration	4.7	6.7
YTM	3.5%	4.0%
Sortino ratio**	0.4	0.3

FUND MANAGER COMMENT

In June INVL Global Emerging Markets Bond subfund unit's value increased further by 0.5% but underperformed against the benchmark which managed to gain 0.8%. Nevertheless, YTD performance is robust as fund leads the benchmark by 1.4% (0.7% vs -0.7%).
Inflation and response of the central banks continued to dominate the financial markets in June. FED stuck to its narrative that it expects inflation spike to be short-lived due to low-base effect, sudden rebound in consumption growth and belief that bottlenecks in various stages of the supply chain are temporary. Investors seemed to be convinced by FED and ECB's continued reassurance that inflation should not be perceived as an imminent threat and accommodative policies are still in place. US 10-year Treasury YTM fell from 1.59% to 1.47% while German 10-year government bond YTM was stable. Nevertheless, as quarantine restrictions are being lifted, consumption is rebounding and economies are getting heated again, central banks had to be careful – FED announced that markets should expect rate hikes not in 2024, as predicted before, but instead in 2023. Alternatively, emerging market central banks were cornered and, in order to curb rising inflation and support their currencies, had to undertake rate hikes. For example: Brazil (+0.75%), Czech Republic (+0.25%), Mexico (+0.25%), Russia (+0.5%) all turned to hawkish monetary policies.
Out of the largest benchmark countries, Peru and Chile were the top performers. Peruvian government and corporate bonds have rebounded from their lows as presidential election, which was a major source of uncertainty, got out of the way even though the prospective candidate is deemed to be a leftist. Chilean fixed income assets climbed after a significant correction due to political uncertainty in May.
As FED's actions resulted in a rally of USD-denominated bonds, Petrobras 30s and Azerbaijan 29s were among the fund's top performers. In addition, Macedonia 26s bonds saw many buyers over the month and MAS Real Estate rebounded well after the initial sell-off by speculative investors after the issue. New Akropolis 26s bond saw weak interest while Adani Ports 29s issue was adversely impacted by supposed news that accounts of major foreign shareholders were frozen. Later it was clarified that freeze pertains to some specific accounts from 2016 in an unrelated case and have nothing to do with Adani shares. Indonesian sovereign issue was swapped with KSA's 2029s issue in attempt to keep YTM intact while achieving a 3-notch rating uplift and greater liquidity. Fund participated in the primary issue of Eastern and Southern African Trade and Development Bank's 28s issue which rose by 1% straight after the issue. In addition, fund participated in a tender offer of OCP Group (tender price was 1% higher), some others are still pending. Fund's YTM after hedge is about 3.5% (similar to the benchmark) for a duration of 4.7 years, which is still considerably lower than benchmark's duration.

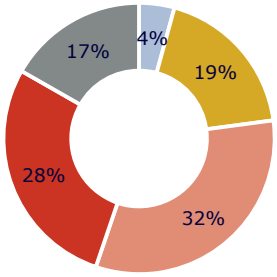
**Standard deviation is used to measure risk. Standard deviation is an indicator that measures how strongly fund's daily return deviates from its mean. The lower the standard deviation the lower the fund's risk. The standard deviation value corresponds to the period shown in the historical returns graph.*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



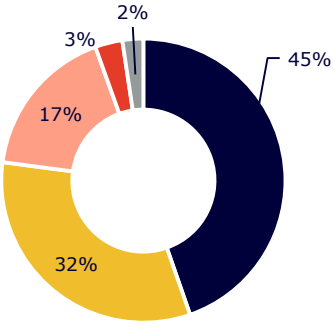
BY SECTOR

- Government
- Consumer Staples
- Telecommunication Services
- Real Estate
- 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

MSPSJ 4 1/4 05/19/26	Real Estate	5.1%
PETBRA 5.093 01/15/30	Energy	4.3%
ULKER 6.95 10/30/25	Consumer Staples	4.3%
ARAGVI 8.45 04/29/26	Consumer Staples	4.1%
GEOCAP 6 1/8 03/09/24	Financials	4.0%
AKRPLS 2 7/8 06/02/26	Real Estate	4.0%
EEPPME 4 1/4 07/18/29	Utilities	3.9%
MEX 4 3/4 04/27/32	Government	3.9%
SNSPW 2 1/2 06/07/28	Materials	3.9%
AZERBJ 5 1/8 09/01/29	Government	3.9%

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.

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