



# INVL Global Emerging Markets Bond Subfund



2024 March



# SB Asset Management



# Investment committee and fixed income team

## Investment Committee

## Fixed Income team

						
VAIDOTAS RŪKAS	AUDRIUS MATIKIŪNAS	VYGANDAS JŪRAS	REGIMANTAS VALENTONIS	KASPARAS SUBAČIUS	JONAS AKELIS	SIMAS RIMAŠAUSKAS
<b>Chief Executive Officer</b> (17 years of experience + with firm since 2007)	<b>Investment Committee Member</b> (17 years of experience + with firm since 2016)	<b>Investment Committee Member</b> (32 years of experience + with firm since 2023)	<b>Chief Investment Officer</b> (16 years of experience + with firm since 2018)	<b>Head of Fixed Income</b> (6 years of experience + with firm since 2018)	<b>Junior Fund Manager</b> (4 years of experience + with firm since 2020)	<b>Fund Manager Assistant</b> (1 year of experience + with firm since 2023)



# Investment opportunity

Why is Emerging Market debt an attractive long-term investment?





# Reasons to invest in global Emerging Markets

## Economic growth advantage

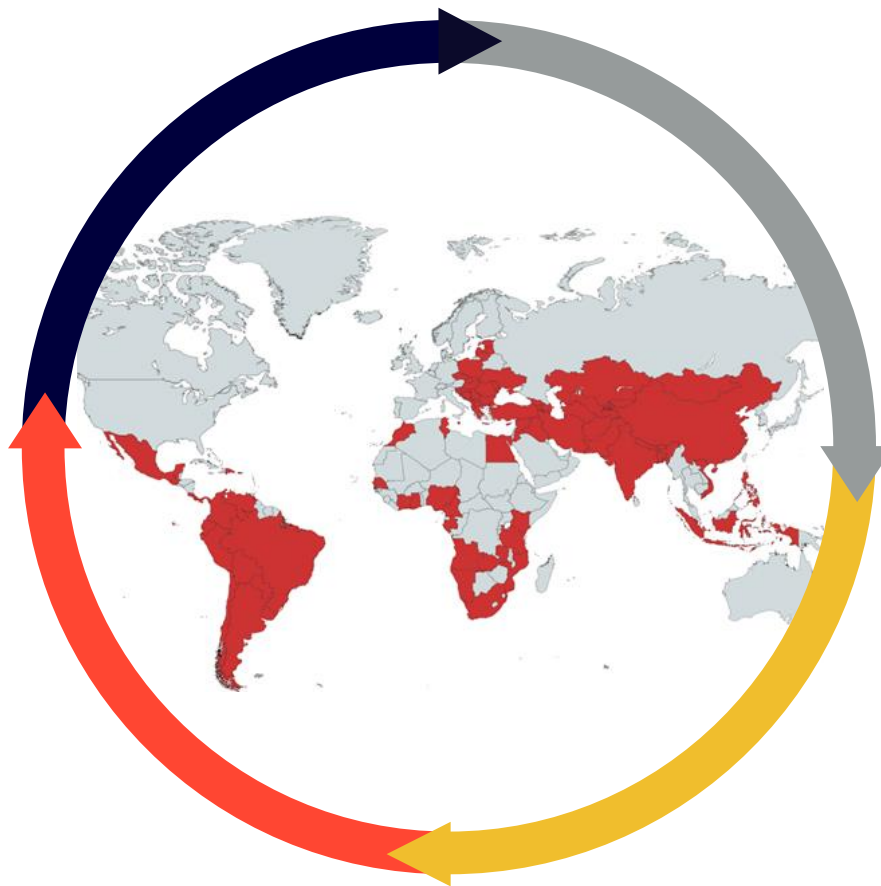
	Annual GDP growth 2017-2021	2022	Projected 2027
DM	1.5%	2.4%	1.7%
EM	3.5%	3.7%	4.3%

Source: IMF

## Lower public debt levels

	Government debt to GDP	
	2022	Projected 2027
DM	112%	114%
EM	65%	76%

Source: IMF



## Demographic advantage over developing markets

	Working age population	
	2020	Projected 2050
DM	0.8 bn	0.7 bn
EM	4.2 bn	5.3 bn

Source: World bank

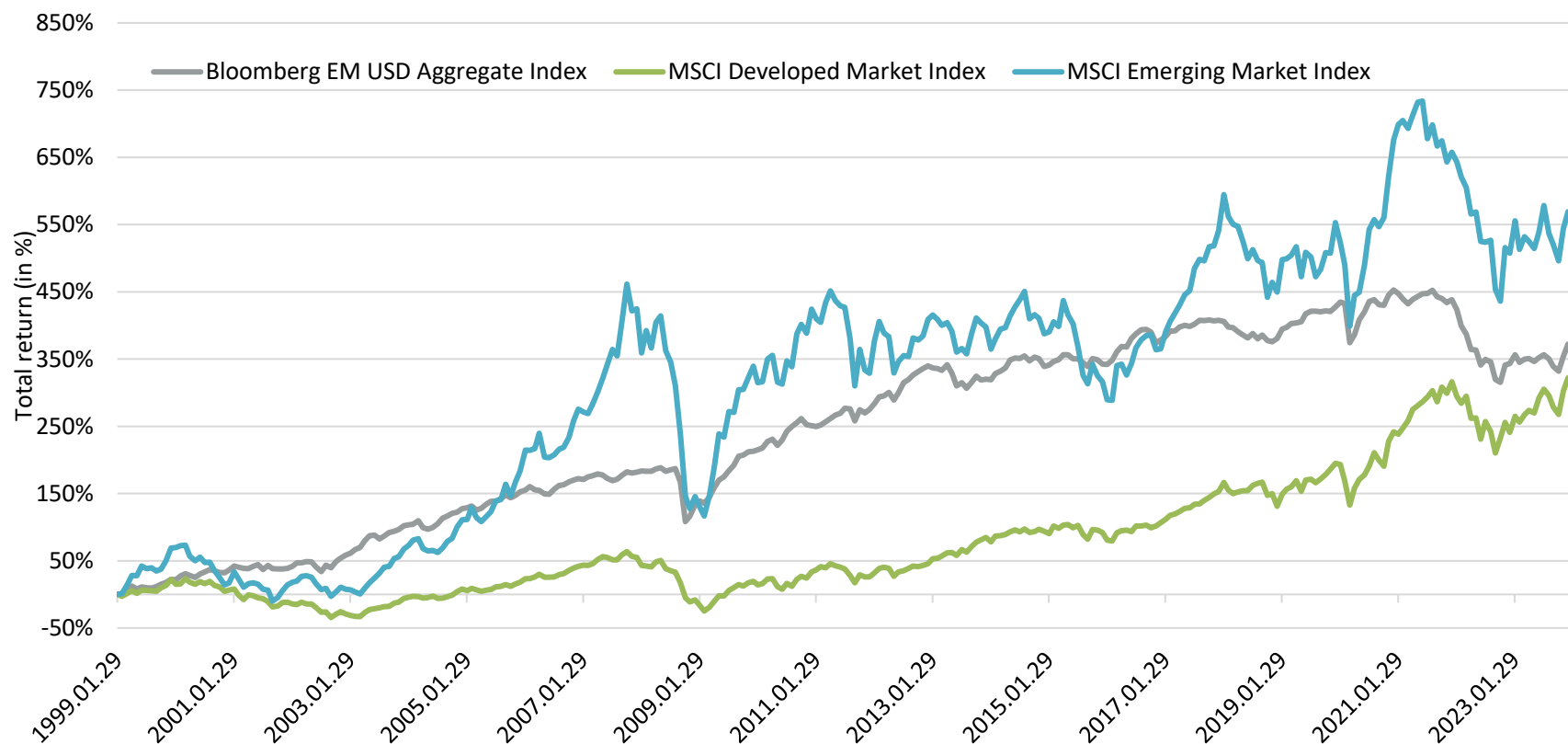
## Higher potential and attractive yields

	YTM % (in USD)
EM sovereign USD bonds	7.6%
EM corporate USD bonds	6.5%
10-year US Treasury	4.2%

Source: Bloomberg



# Emerging Market debt: equity returns but with lower volatility



	Ann. return	Ann. Volatility
Bloomberg EM USD Aggregate Index	6.4%	9.3%
MSCI Developed Market Index	6.2%	15.6%
MSCI Emerging Market Index	7.9%	21.2%

Source: Bloomberg, March 2024



# Higher return potential compared to equity – happens quite rarely

Graph compares EM bond market's yield-to-maturity against MSCI ACWI World (equity market) estimated earnings yield for the next 12 months – bond yield offers more attractive expected return



Source: Bloomberg, March 2024



# Investment philosophy

Where does the alpha come from?





## Important notice

The Subfund **has not invested or had exposure** to Russian or Belarussian bonds since mid-2021.

The Subfund **does not plan to invest** in Russian or Belarussian bonds in the foreseeable future.



## Sources of alpha

Exploiting off-benchmark opportunities

Avoiding value-destructive positions and volatility from serial defaulters or local currencies

Usage of arbitrage opportunities between single-issuer EUR and USD bonds

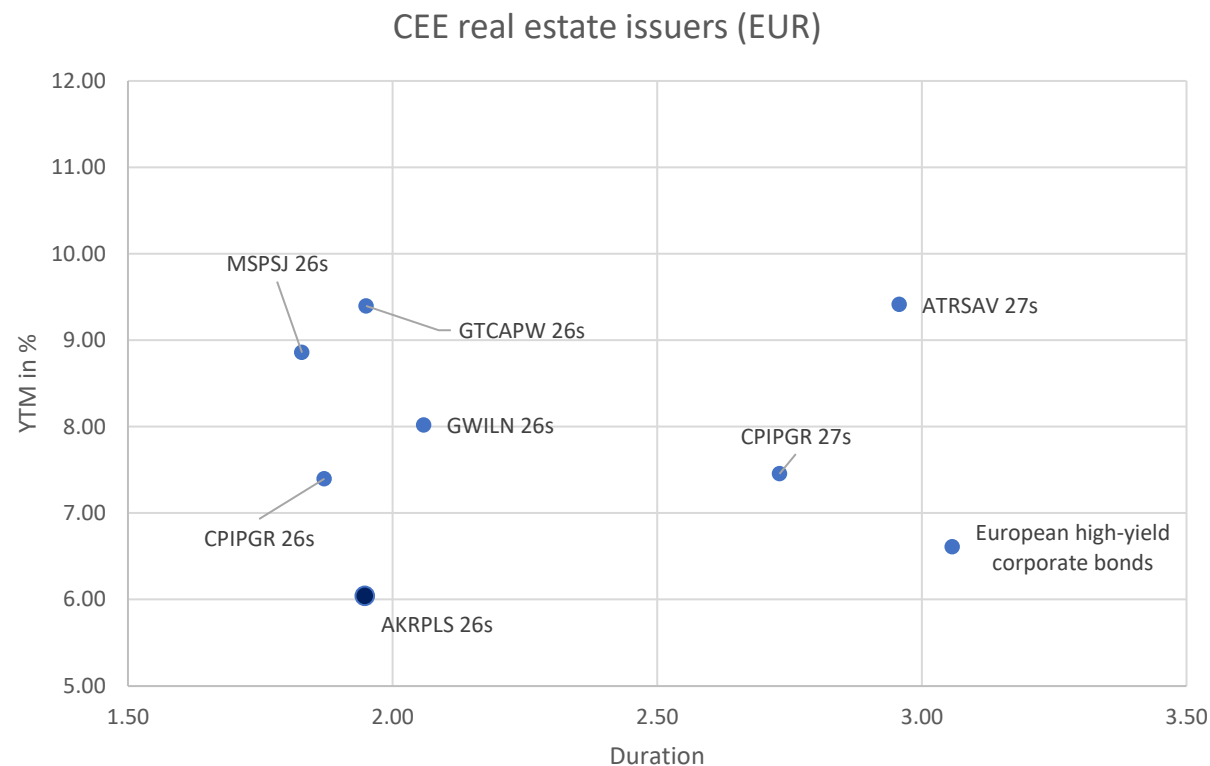
Active participation in primary and secondary markets



# Typical issuers that the subfund is looking for: case study

## Akropolis Group:

- Dominant shopping and entertainment center management company in the Baltic countries:
  - Value of investment property at over 1 billion EUR, combined GLA of 330.000+ m2;
  - ~1000 tenants and annual footfall of 41 million people.
- Solid fundamentals, strong and stable cash flows, decent debt level – net LTV as of 1H23 was 26%. Occupancy rate at 98%, net rental yield over 7%
- It is not included in the CEE bond benchmark due to lower than USD 500 M bond issue.
- Credit rating is one notch below IG (BB+/BB+) because company is small by global standards, while its financial metrics are solid.



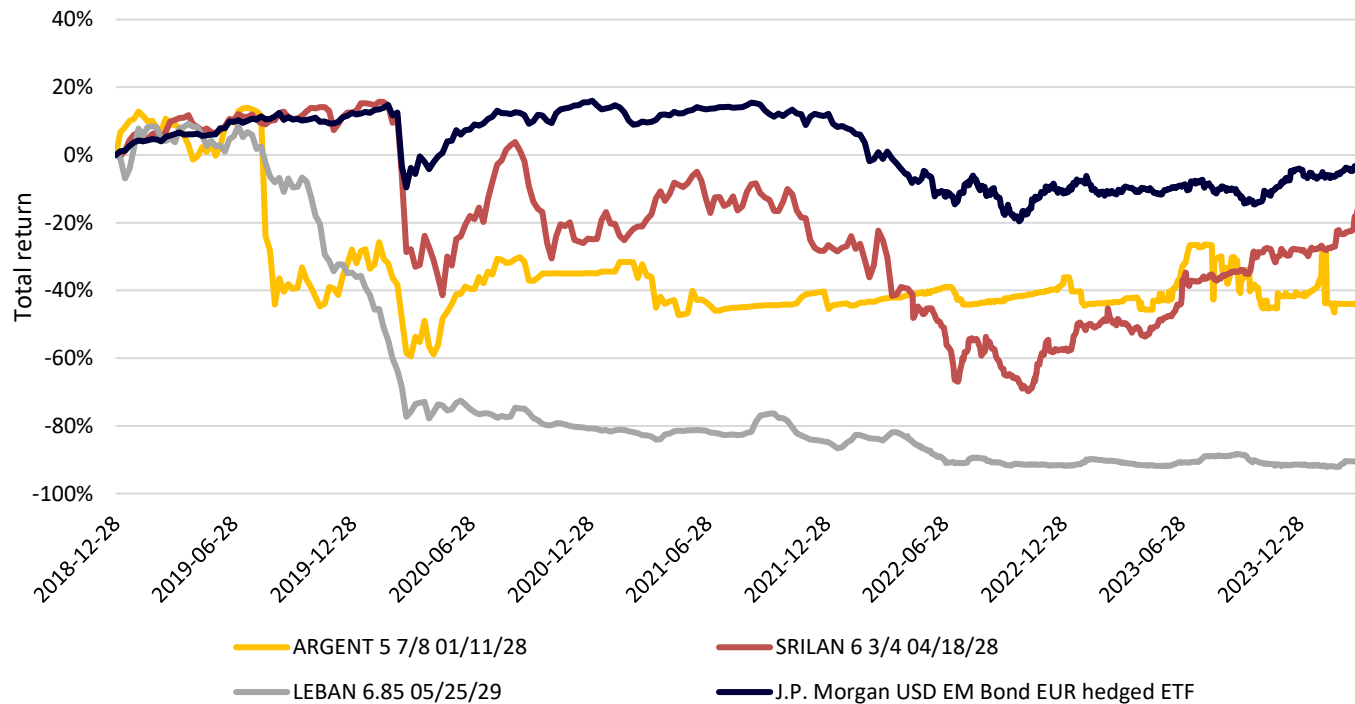
Source: Company filings, SB Asset Management, March 2024



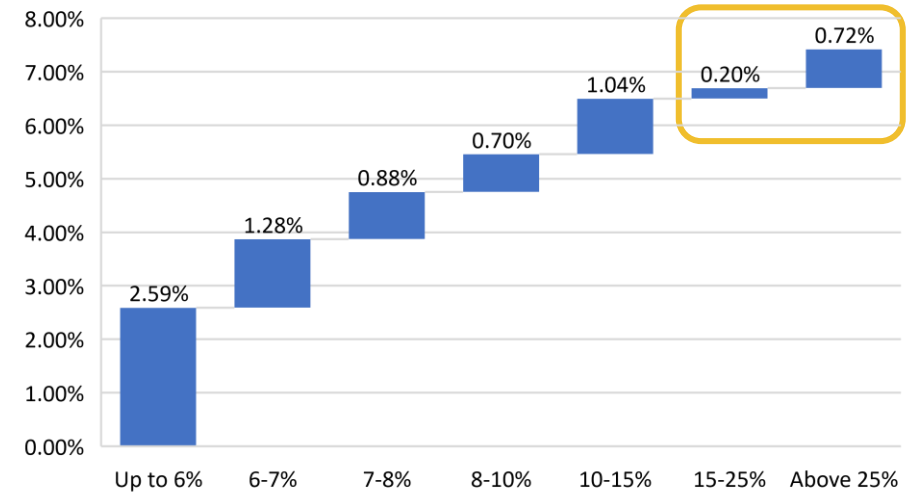
# Avoiding value destruction in heavily leveraged countries and serial defaulters

Subfund does not invest into such troubled countries which are deemed as too risky and/or leveraged

		Total return since 2018-12-31	Difference
ARGENT 6 5/8 07/06/28	USD	-44.0%	-40.0%
SRILAN 6 3/4 04/18/28	USD	-15.5%	-11.6%
LEBAN 6.65 11/03/28	USD	-90.4%	-86.5%
iShares J.P. Morgan USD Emerging Market ETF	USD	-4.0%	



EM bond universe YTM split by YTM bracket

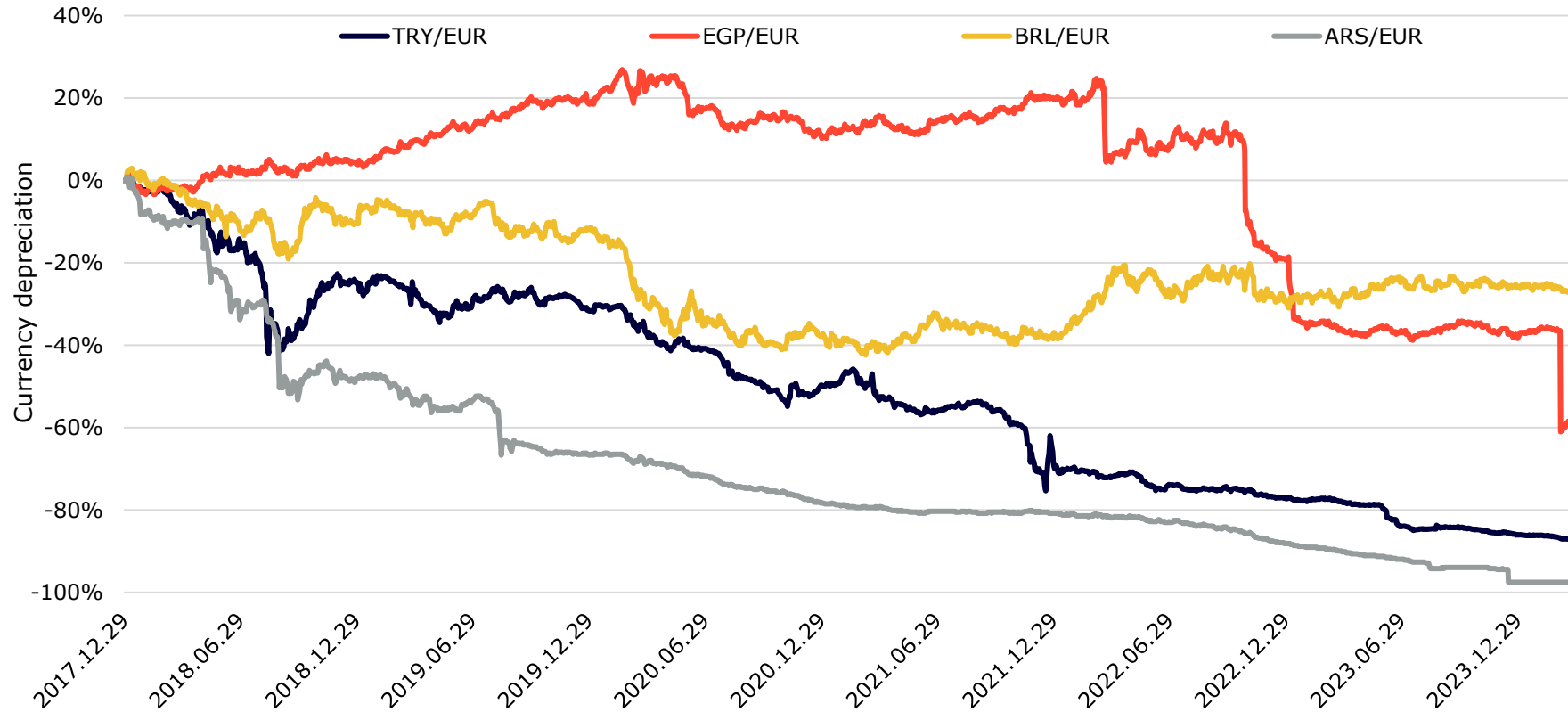


Source: SB Asset Management, Bloomberg, March 2024



# Hard currency only: avoiding the volatility of local currencies

Subfund only invests capital into EUR or USD denominated bonds therefore avoiding unexpected situations

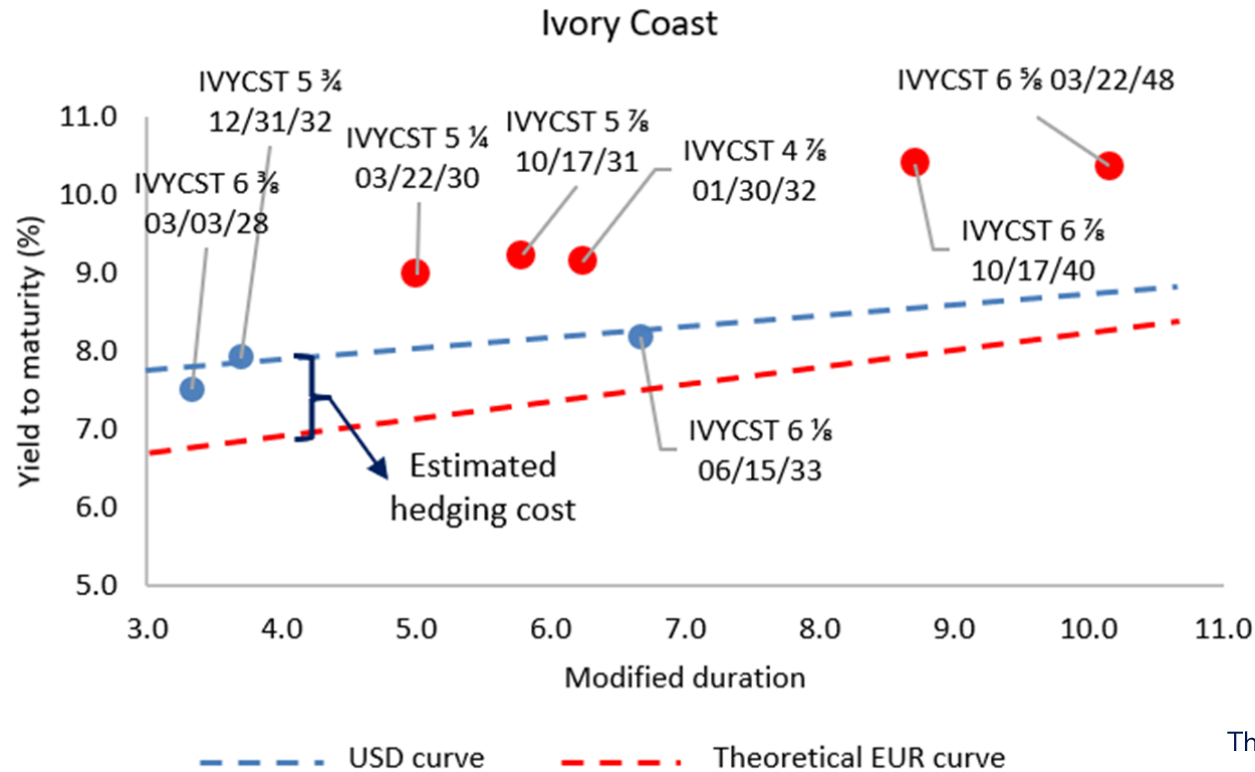


Source: SB Asset Management, March 2024



# Arbitrage opportunities between single-issuer EUR and USD bonds

Some issuers/countries offer technically attractive investment opportunities – i.e. while in theory hedging from USD to EUR should cost the investor 1–2%, in practice subfund can directly buy EUR-denominated bonds at higher YTM than USD bonds



Theoretical EUR curve is USD curve less annual hedging costs  
Source: Bloomberg





## Activity in primary and secondary markets

	2017	2018	2019	2020	2021	2022
Fund turnover ratio	131%	77%	55%	40%	178%	86%

20 + counterparties with good relationships:

- All Baltic State banks;
- Major banks in CEE;
- One of TOP 3 global leaders in the primary market (investment bank);
- 10+ UK, Switzerland, Luxembourg etc. based brokers with EM/CEE experience and end-clients

### Primary market allocations:

Benchmark positions	10 – 33%
Non-benchmark positions with high oversubscription	25 – 66%
Baltic names, tender offers	66 – 100%



# Investment process



## Strategy

Focused Emerging Market government, quasi-sovereign and corporate bond TOP picks

### Objective:

maximization of risk-adjusted returns (Sharpe ratio) and minimization of drawdowns

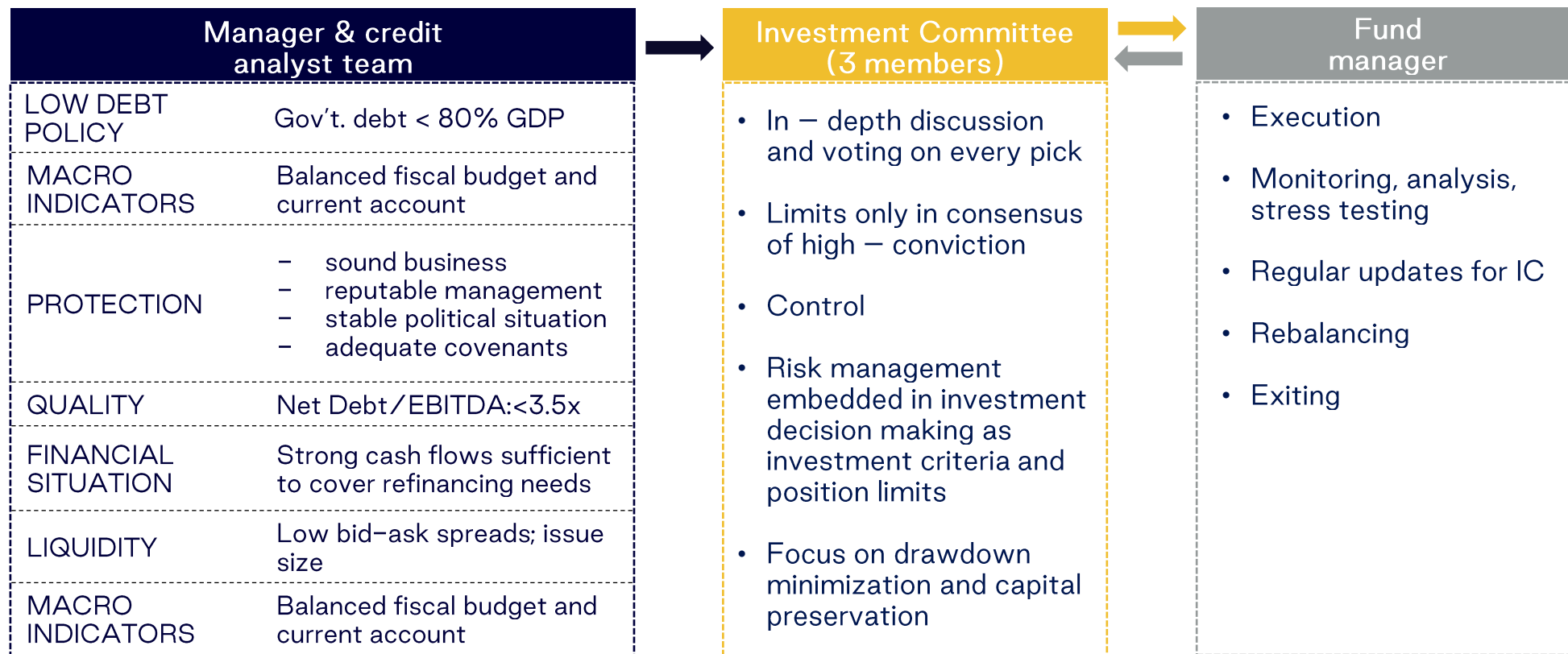
### Strategy:

- Focus on fundamentally strong **hard-currency sovereign and corporate debt securities** in Emerging Markets (currency risk hedged to EUR)
- Current average credit rating: **BB+**
- Yield to maturity: **6.5%** (in EUR terms);
- Duration: **3.7 years**

Source: SB Asset Management, March 2024



# Investment process



**GEM credit universe:**

37 positions currently in the fund

>1000 issuers (100 issuers left after first quality screening)



## ESG integration (Article 6 subfund)

“Avoid” approach with focus on downside risks

Two main ESG strategies used across fixed income strategies:

### **Negative / exclusionary screening**

- No involvement / significant income from weapon production and sales, tobacco, alcohol, gambling, pornography sectors.

### **ESG integration**

- Bloomberg ESG score which includes a set of standardized ESG metrics is considered in investment decision making.

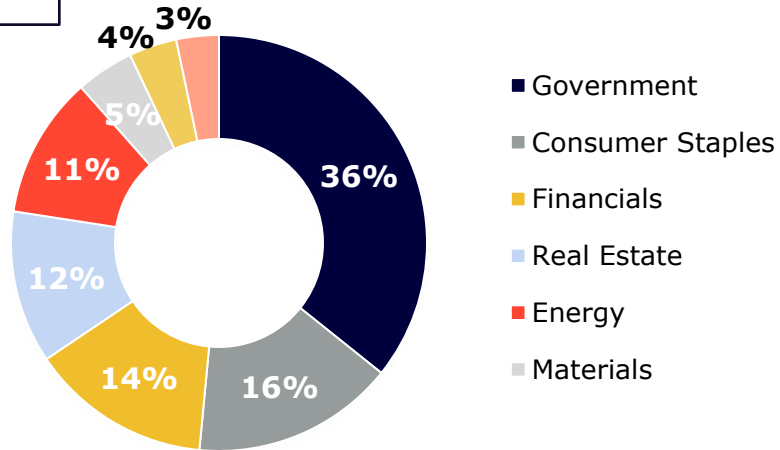
# Main characteristics and comparisons



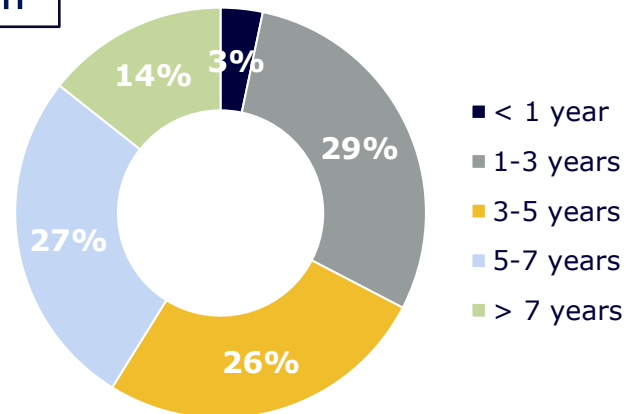


# Investment breakdowns

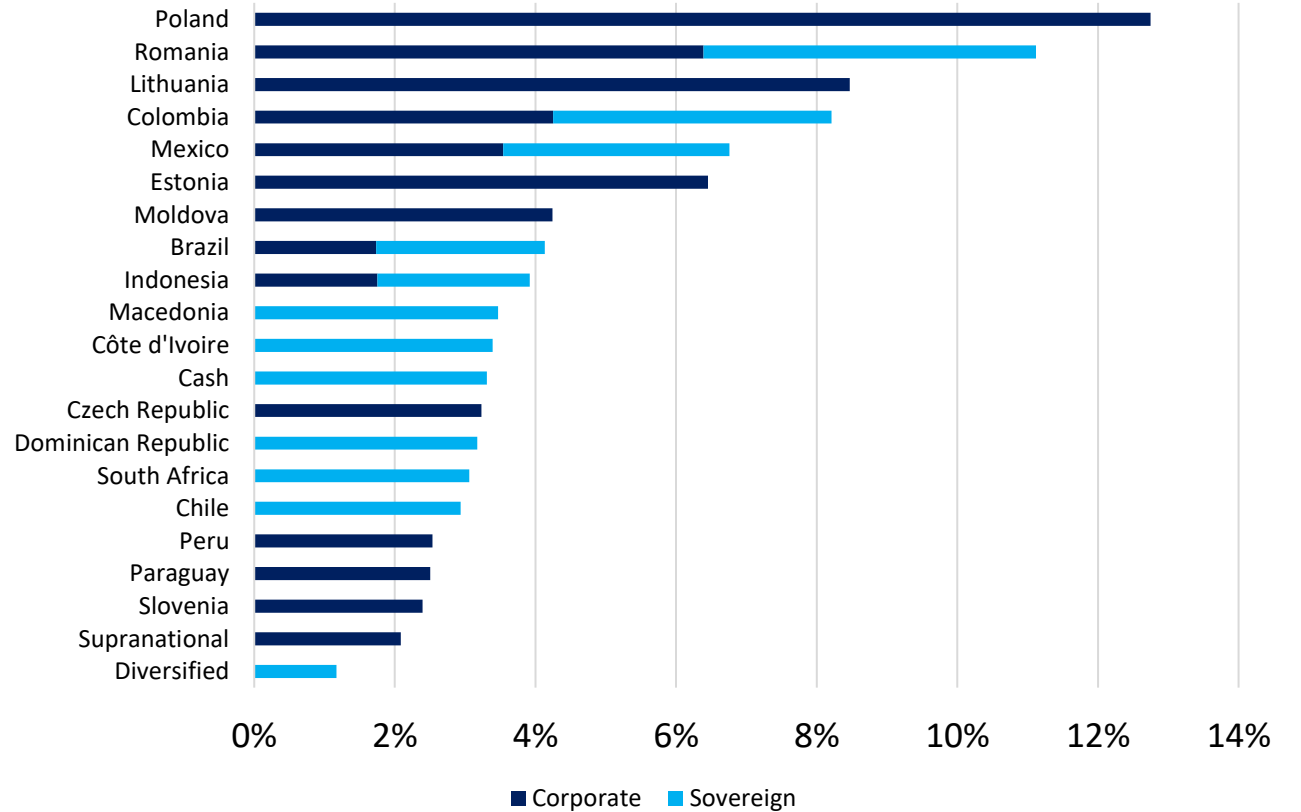
Sector



Duration



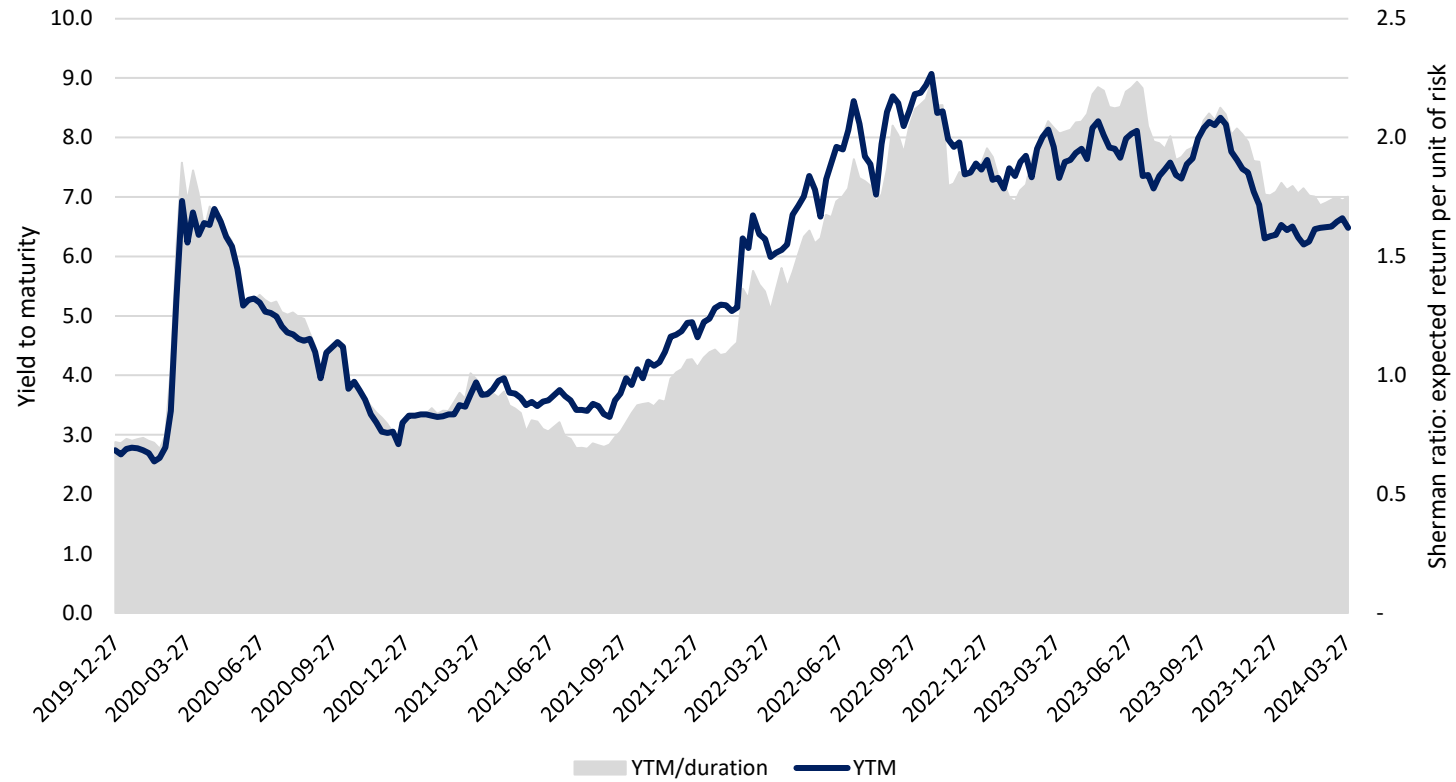
Country



Source: SB Asset Management, March 2024



# Subfund's yield has recently gone up while duration remained stable



Source: SB Asset Management, March 2024



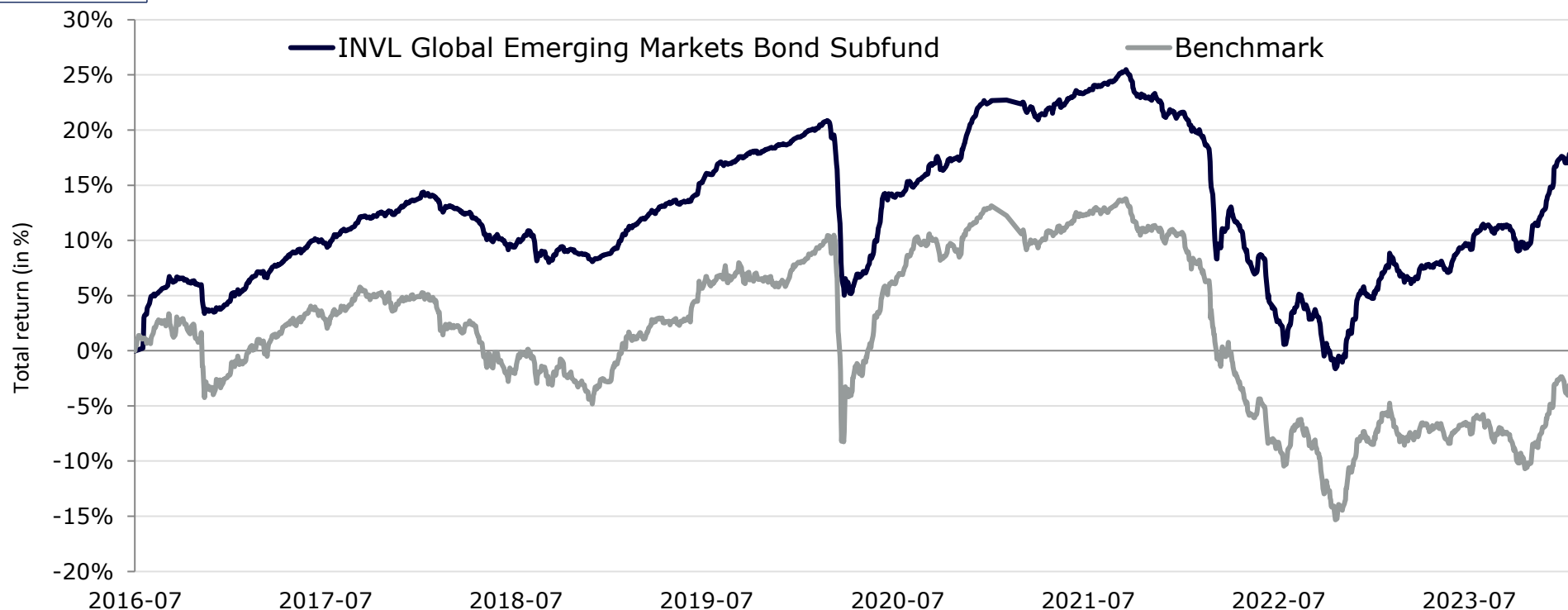
## Top 5 investments

AKRPLS 2 7/8 06/02/26 (Akropolis)	5.5%	<ul style="list-style-type: none"><li>- Dominating shopping and entertainment center operator in the Baltics;</li><li>- Attractive around 6% YTW for BB+ rated less than 3Y duration issue;</li><li>- Conservative net LTV at 26% as of 2023 Q2.</li></ul>
MBKPW 8 3/8 09/11/27 (mBank)	4.5%	<ul style="list-style-type: none"><li>- Fifth-largest banking institution in Poland with a well-established domestic franchise;</li><li>- The bank is majority-owned by Commerzbank AG;</li><li>- Strong capitalization metrics (CET1 ratio at 14.5% as of Q2 2023) and efficiency (cost-to-income around 40%).</li></ul>
SNSPW 2 1/2 06/07/28 (Synthos SA)	4.5%	<ul style="list-style-type: none"><li>- Leading European producer of synthetic rubber and insulation materials;</li><li>- Acceptable leverage and access to equity injection should it be needed;</li><li>- Senior secured issue offering 6% YTW for lower than 6Y duration and BB+/BB/Ba2 rating.</li></ul>
ARAGVI 8.45 04/29/26 (Trans-Oil Group)	4.2%	<ul style="list-style-type: none"><li>- Vertically integrated leading agro-industrial business in Moldova with 90%+ market share in its segment;</li><li>- Majority of revenues come from international markets and are denominated in hard currencies;</li><li>- Solid capitalization ratio (~35%), moderate adjusted leverage.</li></ul>
ROMANI 3.624 05/26/30 (Romania government)	4.2%	<ul style="list-style-type: none"><li>- Relatively low level of public debt (close to 50% of GDP);</li><li>- Investment grade rating (BBB-) and NATO membership;</li><li>- More than 5% YTM for a 6Y duration bond.</li></ul>

Source: SB Asset Management, Bloomberg, company filings, March 2024



# Significant outperformance against the benchmark



	Annualized return	Volatility	Sharpe ratio	YTM	Modified duration
Subfund	2.5%	3.4%	0.7	6.5% (in EUR)	3.7 years
Benchmark*	-0.2%	5.6%	0.0		

Source: Bloomberg, SB Asset Management, March 2024  
 Volatility and Sharpe ratio are calculated based on daily returns.  
 \*Benchmark index – indicator against which subfund's return is compared:  
 100% Bloomberg EM USD Aggregate Total Return Index Value Hedged EUR (H00014EU Index)  
 Previous benchmark index (until 30<sup>th</sup> November 2023):  
 50% J.P. Morgan Emerging Markets Bond Index (EMBI) Global Hedged Euro Index (JPEIGHEU Index)  
 50% J.P. Morgan Corporate EMBI Broad Hedged Level in EUR (JBBSHEUR index)



# Superior longer-term returns compared to peers (sorted by 5Y)

Funds	YTD	2Y	3Y	5Y	Since 2016.07.01
<b>INVL Global Emerging Markets Bond Fund</b>					
Performance	3.1%	8.2%	0.1%	7.6%	21.2%
No. of competitors	115	115	115	115	115
Ranking	19	5	6	4	3
Quartile	1	1	1	1	1

Funds	YTD	2Y	3Y	5Y	Since 2016.07.01	3Y Sortino	Max DD in 3 years
Peer #1	6.7%	12.6%	3.9%	14.6%	31.9%	0.06	-29.9%
Peer #2	6.7%	8.2%	5.6%	11.9%	23.4%	0.03	-23.3%
Peer #3	1.2%	0.2%	-5.2%	7.8%	16.7%	0.55	-16.6%
<b>INVL Global Emerging Markets Bond Fund</b>	<b>3.1%</b>	<b>8.2%</b>	<b>0.1%</b>	<b>7.6%</b>	<b>21.2%</b>	<b>-14.4%</b>	<b>-21.6%</b>
Peer #5	2.1%	6.3%	3.5%	6.0%	--	-12.3%	-14.2%
Peer #6	4.4%	7.2%	3.4%	5.8%	16.0%	-5.5%	-17.7%
Peer #7	3.4%	6.7%	-2.8%	4.3%	12.8%	0.18	-28.4%
Peer #8	3.7%	12.9%	6.6%	3.8%	10.6%	0.05	-19.7%
Peer #9	2.2%	1.0%	-5.7%	3.6%	-8.1%	0.41	-25.2%
Peer #10	0.6%	0.4%	-6.3%	3.4%	6.7%	0.37	-19.9%
.....							
Peer #105	0.9%	-10.2%	-20.4%	-16.7%	-12.9%	0.61	-40.2%
Peer #106	1.6%	-1.4%	-9.5%	-17.0%	--	0.31	-28.7%
Peer #107	1.7%	-7.9%	-23.8%	-18.1%	-4.0%	0.90	-35.5%
Peer #108	1.7%	-4.4%	-19.5%	-23.6%	-16.8%	0.57	-43.0%
Peer #109	3.6%	0.5%	-1.9%	-28.4%	--	0.12	-38.3%

Source: Bloomberg, March 2024. Sortino ratio is calculated using monthly return data of 3 years. Peers have been selected based on internal evaluation in effort to find comparable funds: i.e. those with sufficient track record, similar investment strategies etc.



# Summary



## Asset class

Investment in regions that stand out in their rapid economic and population growth while debt levels are reasonably low



## Team

Experienced team with solid track record in very active management of Emerging Markets bonds and equities.



## Strategy

A proven strategy of bottom-up bond picking and exploiting market inefficiencies to generate alpha.



## Balanced risk / return

Short duration and hard currency investments that allow to earn sufficient returns with very moderate drawdowns.

## Subfund facts

Inception: 2016

Management fee: 1.25%

2022 TER as % of NAV: 1.55%

AUM: EUR 9.8 M / Strategy AUM: EUR 289 M

Custody: SEB bank (Lithuania) / Auditor: KPMG

ISIN: LTIF00000666 / Bloomberg: INVLGEM





## Disclaimer

INVL Global Emerging Markets Bond Subfund (hereinafter – the Subfund) is a subfund of the open-ended harmonized investment fund INVL Umbrella Fund, managed by UAB „SB Asset Management“ (hereinafter – the Management Company).

The assets of the Subfund are invested in debt securities (bonds) of governments, municipalities, and companies in emerging countries (securities exchanges and markets). If investments are made in foreign currency, changes in the exchange rate may affect the return on investment.

Investing into Subfund’s investment units is related to the investment risk. Subfund’s past results only show the results of the Subfund’s activities for a past period, and the past period results do not constitute a reliable indicator of the future results. Past results do not guarantee future performance. If the return on investments previously was positive, it will not necessarily be so in the future since the value of investments can both rise and fall, the investor could regain less than invested. The Management Company does not guarantee the profitability of investments. The latest values of the Subfund investment units are published on the website [www.invl.com](http://www.invl.com).

Before making a decision to invest, the investor should personally or with the help of investment advisors assess the Subfund’s investment strategy, applicable fees and all investment-related risks. The investor should also carefully read the Subfund’s Rules, Prospectus, Key Investor Information Document and other documents intended for the investors, which are to be found on the website of the Management Company [www.sb.lt](http://www.sb.lt) or may be obtained free of charge at the customer centres of the Management Company.

The Subfund uses a composite benchmark index which is chosen to reflect as precisely as possible the investment strategy (asset types and proportions) specified in the Rules and Prospectus, as well as the strategic distribution of the Subfund’s investments.

All the information presented is of a promotional nature and cannot be construed as a recommendation, offer or invitation to invest in the Subfund or any other financial instruments. The information provided here cannot be the basis for any subsequently concluded agreement. Although this information of a promotional nature is based on sources considered to be reliable, the Management Company shall not be held responsible for any inaccuracies or changes in the information, or for losses that may arise when investments are based on this information.



**Thank you & all the best  
in the good work  
that you do**