INVL EMERGING EUROPE BOND SUBFUND

March 2023

STRATEGY

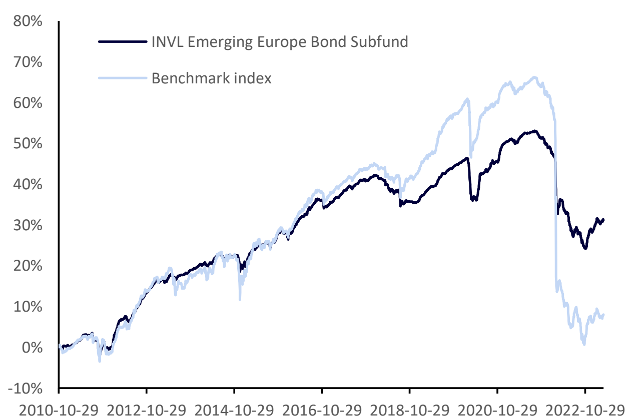
The objective of the subfund is to ensure balanced growth of the assets of the subfund by investing at least 85 percent of its net assets in the investment units of Class I of the subfund INVL Emerging Europe Bond Fund (hereinafter – the Master Subfund) of the umbrella investment fund INVL Fund intended for institutional investors established in the Grand Duchy of Luxembourg. This way, the subfund will operate as a feeder subfund. In its turn, the Master Subfund invests up to 100 percent of its assets in government and corporate debt securities in Emerging Europe.
Recommended investment term – minimum 1 - 2 years.

FACTS

Management company	INVL Asset Management
ISIN code	LTIF00000468
Inception date	2010-10-29
Minimum investment	EUR 0
AUM, EUR M	7,4
Strategy AUM, EUR M	331
Management fee	0,45%
Currency	EUR
Countries of distribution	Lithuania, Latvia, Denmark, Finland, Norway, Germany

For more information on the fund (prospectus, benchmark, results) please click on the link below:
https://www.invl.com/en/investment/mutual-funds/invl-emerging-europe-bond-subfund/fund-information/

RESULTS



	Fund	Benchmark ***
Return YTD	2,1%	1,8%
Return 1Y	-3,4%	-6,7%
Return 3Y	-4,0%	-27,3%
3 year annualized return	-1,4%	-10,1%
5 year annualized return	-1,4%	-5,6%
Volatility (St. deviation)*	2,4%	5,6%
Duration	2,6	
YTM	6,9%	
Sharpe ratio**	0,9	0,1

FUND MANAGER COMMENT

In March, INVL Emerging Europe bond subfund unit’s value increased by 0.4% and nearly replicated the performance of its benchmark index which printed a 0.5% gain. On the bright side, the fund generated its positive return with lower intra-month volatility which was observed over the month.

Although both ECB and FED hikes interest rates further by 0.5% and 0.25% respectively and indicated that the fight against inflation is not over yet (since prices have become more entrenched with sticky service inflation), bond markets have rallied substantially and experienced record yield declines. At one point on March 2-year US Treasury yield went down by 80 bps over a rolling 2-day period – the largest drop since 1987 Flash Crash. Risk-free bonds and those with low credit risk have experienced two-fold positive effect – as fears of financial system stress contagion persisted, flight to safety was experienced with capital flowing into the safest financial instruments. Additionally, since major banks were still paying low interest compared to short duration bonds, depositors have begun massively withdrawing capital and putting it into money market funds. However, while yields in the market were declining, not all bonds performed greatly – for example, sovereign or corporate bonds, or those that do not hold an investment grade rating, and which carry higher credit risk have seen their spreads expanding due to increased solvency risk.

Sovereign bonds fared better over the last month – mostly due to lower credit risk attached compared to corporate bonds. Top performers in the benchmark index were Turkey (rebounded after the earthquake crisis was stabilized, however, risk of upcoming Presidential elections is still looming), Serbia and Croatia, followed by investments that are being held under the fund’s portfolio – North Macedonia and Romania, especially on the longer end of the curve. Fund’s main positive contributors over the last month were Kernel Holding, Ulker, North Macedonia and PKN Orlen. On the other hand, Globalworth was the worst performer as one of the rating agencies reduced its rating from BBB- to BB+. Over the month, only several balancing trades were done – for example, North Macedonia 2027 bonds were increased, Bulgaria Energy 2025 were reduced. The fund continues to keep somewhat lower duration at around 2.7 years while maintaining YTM after hedge at 7.1% and positioning itself by being exposed towards high quality corporates.

**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.*
***Sharpe ratio measures the performance of an investment compared to a risk-free asset, after adjusting for its risk. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance. Sharpe ratio value corresponds to the period shown in the historical returns graph.*
****Benchmark index:*
50% JP Morgan Euro Emerging Markets Bond Index (EMBI) Global Diversified Europe (JPEFEUR Index)
40% Bloomberg Pan-European High Yield (Euro) TR Index (I02501EU Index)
10% European Central Bank ESTR OIS Index (OISESTR Index)

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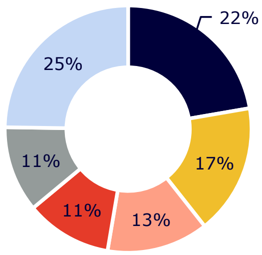
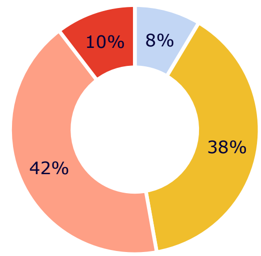
BREAKDOWN OF INVESTMENTS

BY SECTOR



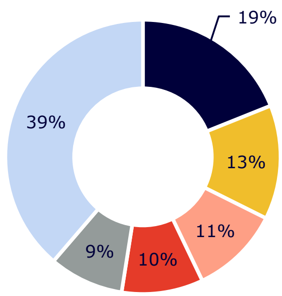
- Financials
- Real Estate
- Consumer Staples
- Government
- Telecommunication Services
- Other

BY DURATION



- < 1 year
- 1-3 years
- 3-5 years
- 5-7 years
- > 7 years

BY COUNTRY



- Poland
- Romania
- Lithuania
- Turkey
- Czech Republic
- Other

TOP 10 PORTFOLIO HOLDINGS

AKRPLS 2 7/8 06/02/26	Real Estate	6,1%
MAXGPE 6 1/4 07/12/27	Consumer Staples	4,4%
MSPSJ 4 1/4 05/19/26	Real Estate	4,4%
SNSPW 2 1/2 06/07/28	Materials	4,2%
NOVALJ 25	Financials	4,1%
GTCAPW 26s	Real Estate	3,8%
MACEDO 1 5/8 03/10/28	Government	3,7%
PKNPW 1 1/8 05/27/28	Energy	3,4%
PKOBP 5 5/8 02/01/26	Financials	3,4%
ULKER 6.95 10/30/25	Consumer Staples	3,4%

The Fund does not invest and does not have exposure to Russian and Belarusian bonds

REASONS TO INVEST

• Combination of only hard currency (EUR or USD) sovereign and corporate debt ensures attractive yield, while limited credit and duration risk provides for low volatility.

• Fund maintains average investment grade credit rating. Lower government debt levels – Central and Eastern Europe 51%, Eurozone 93% (as of the end of Q3 2022).

• Active share of over 80% (creating value through off-benchmark picks, participation in primary issues, inefficiencies in the market).

• Historical Sharpe ratio exceeding 0.9 places the fund among the best Emerging Markets bond funds in the world by risk-adjusted returns.

COMPANY

INVL investment management and life insurance group is a boutique asset management and life insurance 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 1.7 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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Breakdown of top holdings and investment characteristics is based on a look-through approach using feeder fund's investment into master fund.