INVL

INVL GLOBAL EMERGING MARKETS BOND SUBFUND

July 2023

STRATEGY

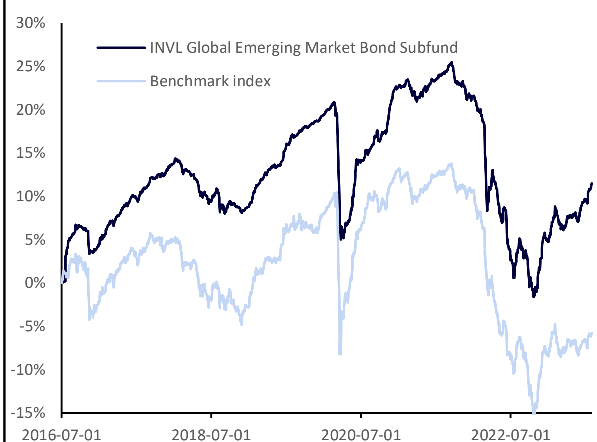
The objective of INVL Global Emerging Markets Bond Subfund is a maximum total return, consistent with preservation of invested capital. Focused on hard-currency sovereign and corporate debt securities in Emerging Markets, the fund aims to capture higher yields and growth potential in rapidly developing 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	8,3
Strategy AUM, EUR M	399
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	6,4%	3,0%
Return 1Y	7,8%	1,6%
Return 3Y	-3,0%	-13,7%
3 year annualised return	-1,0%	-4,8%
Return since inception	11,5%	-5,8%
Volatility (St. deviation)*	3,4%	5,6%
Duration	3,6	5,6
YTM	7,1%	5,4%
Sortino ratio**	-0,2	-1,0

FUND MANAGER COMMENT

In July INVL Global Emerging Market bond subfund's value jumped again by 1.7% and has strongly outperformed the benchmark index which increased by 0.9%. Year to date the fund has increased its solid relative outperformance against the benchmark (6.4% compared to 3.0%) and managed to do that with materially lower volatility.

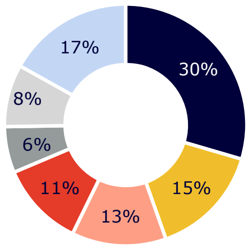
Although both FED and ECB hiked their rates by additional 25 basis points, a consensus was building that central banks may have been able to pull off the 'soft landing' successfully without causing a recession – inflation is receding quickly (US headline inflation diminished to 3% in June while in the eurozone it declined to 5.5%) but labor market is still robust although not as hot as before. After significant cumulative hikes (550 bps in aggregate in the US, 425 bps in Europe), outright tightening cycle seems to have been put on pause and expectations are for central banks to become data dependent rather than communicate future hikes in advance, as full effect of the tightening is still yet to become fully visible. Moreover, both FED and ECB continue to deflate their balance sheets and as such take out the excess liquidity which was poured into the markets during the pandemic. As mentioned in previous months, emerging market central banks were ahead in the hiking race. As a result, rates were mostly left unchanged (Colombia, Romania) or even cut (Chile lowered interest rate from 11.25% to 10.25%) over July because inflation appears to be less entrenched than in the developed markets. The only exception was Turkey which is returning to a more orthodox monetary policy after the presidential elections and has raised its rates for a second time in a row (now from 15% to 17.5%), however, Turkish interest rate level is still deeply negative in real terms.

Fund's main positive contributors over the last month were Frigorifico Concepcion, Camposol and Akropolis bonds. The fund outperformed against the benchmark mostly due to multiple separate investment cases materializing and bond prices rebounding even though average portfolio duration is shorter. Over July, the fund has made several rebalancing trades and invested in Pepco Group bonds. Company is a large-scale European discounter with a robust business model and attractive financial metrics. At the time of purchase, it offered over 7% yield to maturity and received BB+/BB-/Ba3 ratings. Moreover, the fund has switched Turkey 2033 bonds for Chile 2034 which offer relatively attractive yield for robust credit quality. Fund's YTM after hedge at the end of the month was about 7.2% for a duration of 3.7 years.

**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 daily 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).

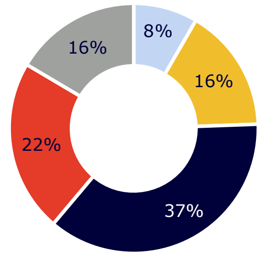
BREAKDOWN OF INVESTMENTS

BY SECTOR



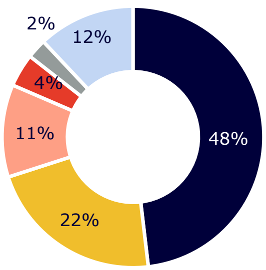
- Government
- Consumer Staples
- Real Estate
- Financials
- Energy
- Cash and cash equivalents
- Other

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
- Other
- Asia
- Cash and cash equivalents

TOP 10 PORTFOLIO HOLDINGS

AKRPLS 2 7/8 06/02/26	Real Estate	5,8%
MSPSJ 4 1/4 05/19/26	Real Estate	4,9%
SNSPW 2 1/2 06/07/28	Materials	4,7%
ROMANI 3.624 05/26/30	Government	4,1%
PEPGRP 7 1/4 07/01/28	Consumer Discretionary	3,7%
SOAF 5 7/8 04/20/32	Government	3,6%
MAXGPE 6 1/4 07/12/27	Consumer Staples	3,3%
CHILE 4 1/8 07/05/34	Government	3,3%
TVLRO 8 7/8 04/27/27	Financials	3,2%
RCSRDS 3 1/4 02/05/28	Telecommunication Services	3,2%

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

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 corporate bonds and less indebted as well as better 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 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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