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.
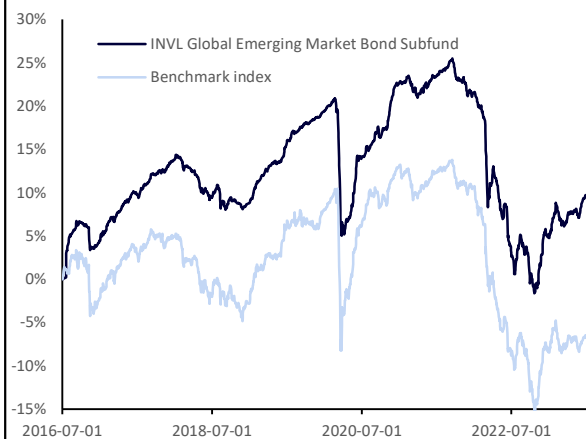
The fund is restricted to buying EUR and USD denominated securities only, while at the same time hedging the USD risk, providing its investors the return in EUR.

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	408
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	6.3%	1.7%
Return 1Y	7.3%	0.7%
Return 3Y	-4.0%	-15.2%
3 year annualised return	-1.4%	-5.3%
Return since inception	11.3%	-7.0%
Volatility (St. deviation)*	3.4%	5.6%
Duration	3.8	5.5
YTM	7.3%	5.8%
Sortino ratio**	-0.2	-1.0

FUND MANAGER COMMENT

In August INVL Global Emerging Market bond subfund's value did not move significantly and declined by -0.1% but has strongly outperformed the benchmark index which declined in value by -1.3%. Year to date the fund has increased its already solid relative outperformance against the benchmark (6.3% compared to 1.7%) and managed to do that with materially lower volatility.

Although there were no interest rate meetings by the FED or ECB and liquidity during summer months is generally lower, August turned out to be quite a volatile month. On 1st of August Fitch followed what S&P did in 2011 and downgraded the credit rating of the US federal government debt from AAA to AA+. As concerns over the fiscal deficit and large supply of debt securities grew, over the next few weeks fixed income markets (especially USD-denominated bonds) experienced a rather steep sell-off. Even though Jerome Powell noted that further work needs to be done on bringing inflation towards 2%, a weaker job market brought optimism that effects of the tightening are showing up and inflation might moderate further. While some individual Emerging Market countries have executed small last hikes, relatively larger economies like India, Mexico, Peru or Romania have kept their policy rates intact. One of the outliers was Brazil which managed to subdue inflation rate succesfully and cut its rates by 50 basis points (from 13.75% to 13.25%) – a trend likely to be followed by other emerging economies when a rise in prices declines. From other developments, Chinese real estate sector proved to be a weak link as 34 out of 50 top developers have been now classified as defaulters. The remaining 16 firms face almost 1.5 billion USD of combined payments due September.

Fund's main positive contributors over the last month were Coruripe (higher EBITDA margin due to increased sugarcane crushing volume and lower fertilizer costs), Synthos (positive momentum over summer months) and Teva Pharmaceuticals bonds. The fund outperformed against the benchmark due to shorter portfolio duration when the market was in a downtrend. Moreover, the outperformance was also helped by fund's positioning as there are no Chinese corporate bond investments in the fund. Besides balancing trades and inflow investments, over August the fund fully sold its holdings in Kernel Holding bonds at an attractive average-weighted price. Also, a new position in Brazil 2033 bonds was opened – Fitch has upgraded country's debt from BB- to BB in the end of July. Fund's YTM after hedge at the end of the month was about 7.3% for a duration of 3.8 years. As the fund received relatively large inflows in absolute and relative terms due to its solid performance, duration is likely to catch up closer to benchmark's once inflows are fully invested.
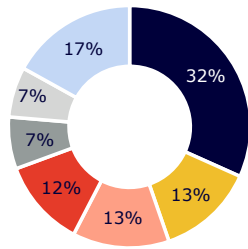
Standard deviation is used to measure risk. Standard deviation is an indicator that measures how strongly fund's daily return deviates from its mean. The lower the standard deviation the lower the fund's risk. The standard deviation value corresponds to the period shown in the historical returns graph.

**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.*
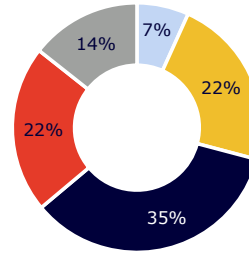
***Benchmark index:*
50% JP Morgan Emerging Markets Bond Index (EMBI) Global Hedged Euro Index (JPEIGHEU Index);
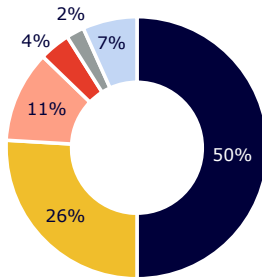*50% JP Morgan Corporate EMBI Broad Hedged Level in EUR (JBBSHEUR Index).*

BREAKDOWN OF INVESTMENTS

BY SECTOR

- Government — 32%
- Consumer Staples — 13%
- Real Estate — 13%
- Financials — 12%
- Energy — 7%
- Cash and cash equivalents — 7%
- Other — 17%

BY DURATION

- < 1 year — 7%
- 1-3 years — 22%
- 3-5 years — 35%
- 5-7 years — 22%
- > 7 years — 14%

BY COUNTRY

- Central and Eastern Europe — 50%
- Latin America — 26%
- Africa and Mideast — 11%
- Other — 4%
- Asia — 2%
- Cash and cash equivalents — 7%

TOP 10 PORTFOLIO HOLDINGS

Holding	Sector	Weight
AKRPLS 2 7/8 06/02/26	Real Estate	5.4%
MSPSJ 4 1/4 05/19/26	Real Estate	4.5%
SNSPW 2 1/2 06/07/28	Materials	4.3%
PEPGRP 7 1/4 07/01/28	Consumer Discretionary	3.9%
ROMANI 3.624 05/26/30	Government	3.7%
ARAGVI 8.45 04/29/26	Consumer Staples	3.6%
TEVA 7 3/8 09/15/29	Health Care Equipment & Services	3.5%
PEMEX 6.7 02/16/32	Energy	3.5%
DOMREP 4 7/8 09/23/32	Government	3.3%
MEX 1.45 10/25/33	Government	3.3%

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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