INVL GLOBAL EMERGING MARKETS BOND SUBFUND

October 2023

STRATEGY

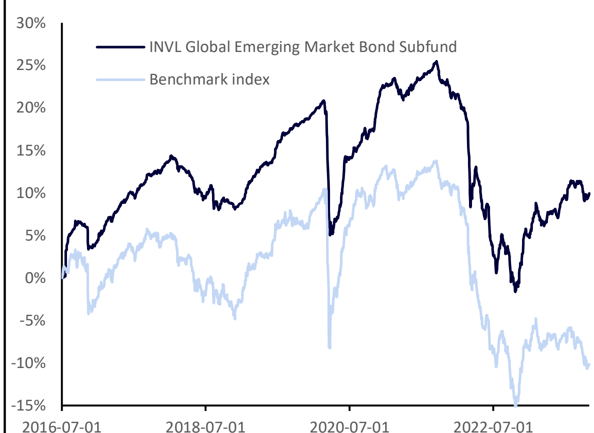
The objective of INVL Global Emerging Markets Bond Subfund is a maximum total return, consistent with preservation of invested capital. Focused on hard-currency sovereign and corporate debt securities in Emerging Markets, the fund aims to capture higher yields and growth potential in rapidly developing 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	8,7
Strategy AUM, EUR M	376
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	5,0%	-1,8%
Return 1Y	10,6%	4,7%
Return 3Y	-6,2%	-17,2%
3 year annualised return	-2,1%	-6,1%
Return since inception	10,0%	-10,1%
Volatility (St. deviation)*	3,4%	5,5%
Duration	3,9	5,3
YTM	8,2%	6,7%
Sortino ratio**	-0,4	-1,0

FUND MANAGER COMMENT

In October INVL Global Emerging Market bond subfund’s value slightly declined by -0.2% but has once again strongly outperformed the benchmark index which declined in value by -1.4%. Year to date the fund has increased its already solid relative outperformance against the benchmark (5.0% compared to -1.8%) and managed to do that with materially lower volatility.

Bonds in developed markets continued to experience pressure due to cemented expectations of interest rates staying at elevated rates for longer. Such narrative was supported by a still robust US labor market, sizzling hot GDP growth (US economy grew at a 4.9% year-on-year rate in Q3 compared to expectations of 4.3%) and persistently high inflation remaining above central bank target levels on both sides of the Atlantic (US inflation in September was 3.7% while eurozone printed 2.9% in October). Moreover, rising fiscal deficit and growing concerns over US Treasury supply fueled the sell-off which spread into other regions and market segments, especially for longer-dated bonds. Emerging market sovereign hard-currency bonds performed pretty much in line with the risk-free bonds, therefore, spreads remained stable. On the policy front, some emerging market central banks have kept interest rates unchanged (just like the FED and ECB) to confidently stave off inflation while some carried on with the cuts (such as Poland, Peru, Brazil). Polish assets were supported as Donald Tusk’s pro-EU and more market friendly party managed to secure enough seats along with its key allies in order to unseat the ruling party – voter turnout was at a record 74%. On October 7th Hamas launched brutal attacks on Israeli soil killing 1400 people and kidnapping more than 200 more. Military attacks by Israel followed in Gaza strip, sparking a global division between pro-Israel and pro-Palestine countries. The fund did not have material exposure to Middle East countries except for Teva, but most of company’s revenues are international, therefore, the conflict did not materially affect company’s operations.

Fund’s main positive contributors over the last month were less-liquid lower duration corporate bonds such as LHV Group, Akropolis Group and Globalworth because longer duration sovereign bonds were pressured due to rising risk-free rates (not so much by rising spreads). The fund outperformed against the benchmark mostly due to shorter portfolio duration when the market was in a downtrend and selection of high-quality corporate bond picks. Besides balancing trades, over September the fund made an investment into mBank green bonds which were issued at a handsome yield-to-maturity of 8.375%. The bond is rated at a solid BBB-/BB+ rating and the bank is majority-owned by Germany’s Commerzbank. Fund’s YTM after hedge at the end of the month was about 8.2% for a duration of 3.9 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).

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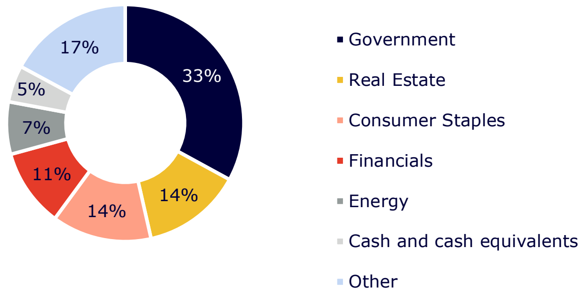
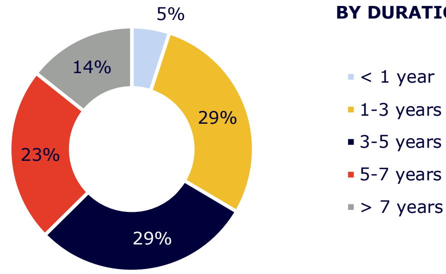
BREAKDOWN OF INVESTMENTS

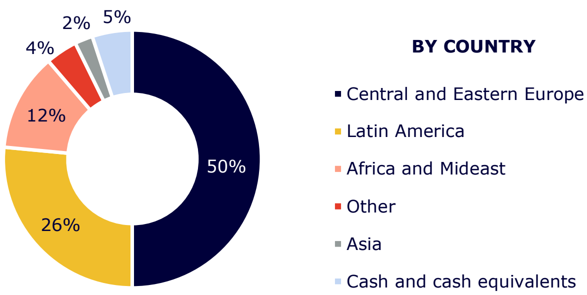
BY SECTOR



BY DURATION



BY COUNTRY



TOP 10 PORTFOLIO HOLDINGS

AKRPLS 2 7/8 06/02/26	Real Estate	5,8%
MSPSJ 4 1/4 05/19/26	Real Estate	4,7%
SNSPW 2 1/2 06/07/28	Materials	4,3%
PEPGRP 7 1/4 07/01/28	Consumer Discretionary	4,0%
ROMANI 3.624 05/26/30	Government	3,8%
ARAGVI 8.45 04/29/26	Consumer Staples	3,7%
PEMEX 6.7 02/16/32	Energy	3,7%
MBKPW 8 3/8 09/11/27	Financials	3,5%
TEVA 7 3/8 09/15/29	Health Care Equipment & Services	3,5%
DOMREP 4 7/8 09/23/32	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 Asset Management is a part of INVL Investment management and life insurance group. 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 2 billion EUR in assets. Being nimble and highly competitive, INVL funds consistently rank high in international rankings.
INVL Asset Management adhere to the United Nations Principles for Responsible Investment (PRI) and is supervised by the Bank of Lithuania (Central Bank of the Republic of Lithuania).

CONTACT

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