INVL

INVL EMERGING EUROPE BOND SUBFUND

October 2023

STRATEGY

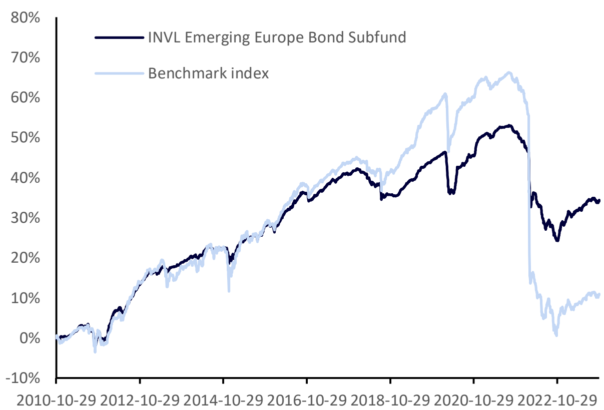
The objective of the subfund is to ensure balanced growth of the assets of the subfund by investing at least 85 percent of its net assets in the investment units of Class I of the fund INVL Emerging Europe Bond Fund (hereinafter – the Master Fund) of the umbrella investment fund INVL Fund intended for institutional investors established in the Grand Duchy of Luxembourg. This way, the subfund will operate as a feeder subfund. In its turn, the Master Fund 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	8,2
Strategy AUM, EUR M	368
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	4,7%	4,6%
Return 1Y	8,0%	7,9%
Return 3Y	-7,5%	-30,6%
3 year annualized return	-2,6%	-11,5%
5 year annualized return	-0,2%	-4,7%
Volatility (St. deviation)*	2,3%	5,5%
Duration	2,6	
YTM	7,2%	
Sharpe ratio**	1,0	0,1

FUND MANAGER COMMENT

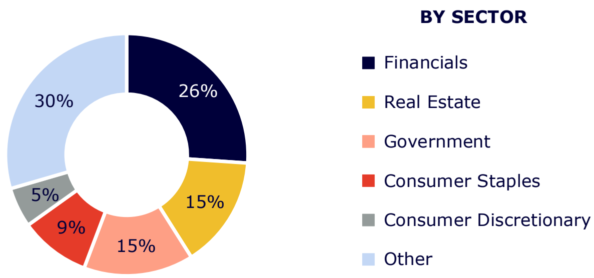
In October, INVL Emerging Europe bond subfund unit's value increased by 0.2% and was slightly better compared with the benchmark index which rose by 0.1% towards the end of the month. Year to date the result is still solidly in the positive territory - the fund's unit value appreciated by 4.7% which is nearly the same result as for the benchmark index, however, the fund managed to do so with lower volatility.

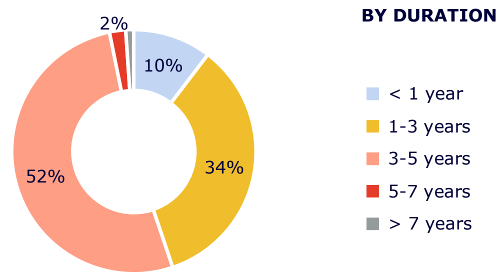
Bonds in developed markets continued to experience pressure due to cemented expectations of interest rates staying at elevated rates for longer. Such narrative was supported by a still robust US labor market, sizzling hot GDP growth (US economy grew at a 4.9% year-on-year rate in Q3 compared to expectations 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, even though most central banks have kept interest rates unchanged (such as Romania or Serbia) to confidently stave off inflation, Poland carried on with the rate cuts which by some estimates seem pre-emptive. Nevertheless, Polish assets received support 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 other front, 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.

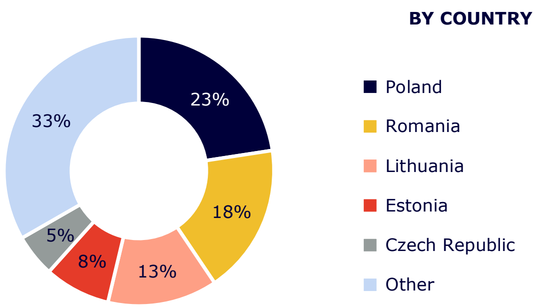
Fund's main positive contributors over the last month were corporate bonds with rather solid fundamentals such as Pepco Group, Trans-Oil, PKN Orlen and Maxima Grupe bonds as longer duration sovereign bonds were more muted due to uncertainty in risk-free rates (especially USD-denominated). In order to put inflows to work, the fund bought Lithuanian sovereign bonds at slightly over 4% yield to maturity which seemed rather sufficient for a 2028 maturity A-rated bond. Moreover, the fund switched its LHV Group 2025 bonds for the ones maturing in 2027 – therefore, duration was extended while ensuring sufficient compensation from yield. The fund continues to keep somewhat lower duration at around 2.6 years while maintaining YTM after hedge at 7.2% 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)

BREAKDOWN OF INVESTMENTS







TOP 10 PORTFOLIO HOLDINGS

AKRPLS 2 7/8 06/02/26	Real Estate	5,5%
PEPGRP 2028s	Consumer Discretionary	5,4%
LITHUN 4 1/8 04/25/2028	Government	3,8%
MSPSJ 4 1/4 05/19/26	Real Estate	3,8%
MAXGPE 6 1/4 07/12/27	Consumer Staples	3,8%
MACEDO 1 5/8 03/10/28	Government	3,8%
SNSPW 2 1/2 06/07/28	Materials	3,6%
PKOBP 5 5/8 02/01/26	Financials	3,1%
PKNPW 1 1/8 05/27/28	Energy	3,0%
ARAGVI 8.45 04/29/26	Consumer Staples	3,0%

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 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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Breakdown of top holdings and investment characteristics is based on a look-through approach using feeder fund's investment into master fund.