

INVL



# INVL Emerging Europe Bond Subfund

2023 July

## Disclaimer

INVL Emerging Europe Bond Subfund (hereinafter – the Subfund) is a subfund of the open-ended harmonized investment fund INVL Umbrella Fund, managed by UAB „INVL Asset Management“ (hereinafter – the Management Company).

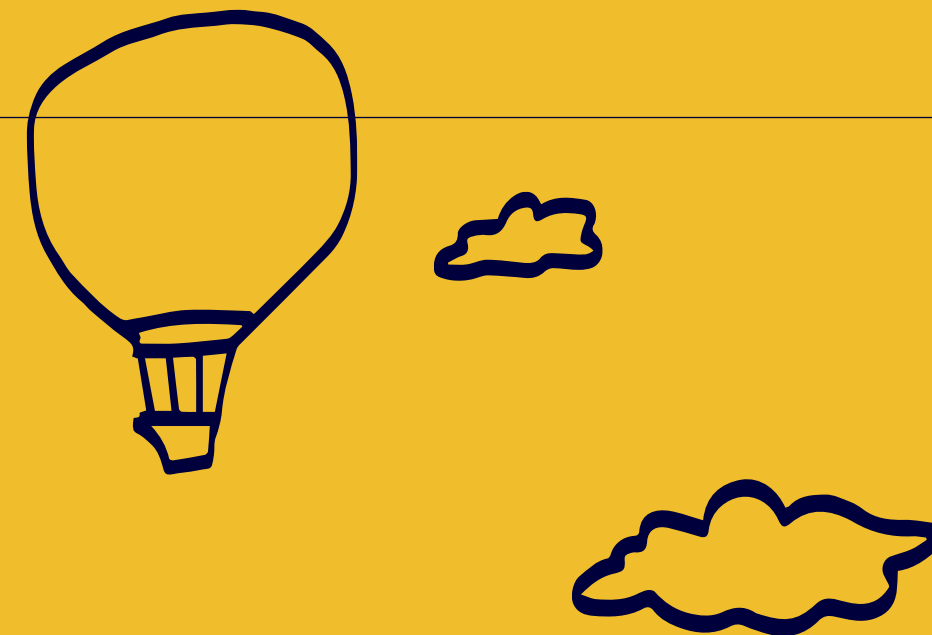
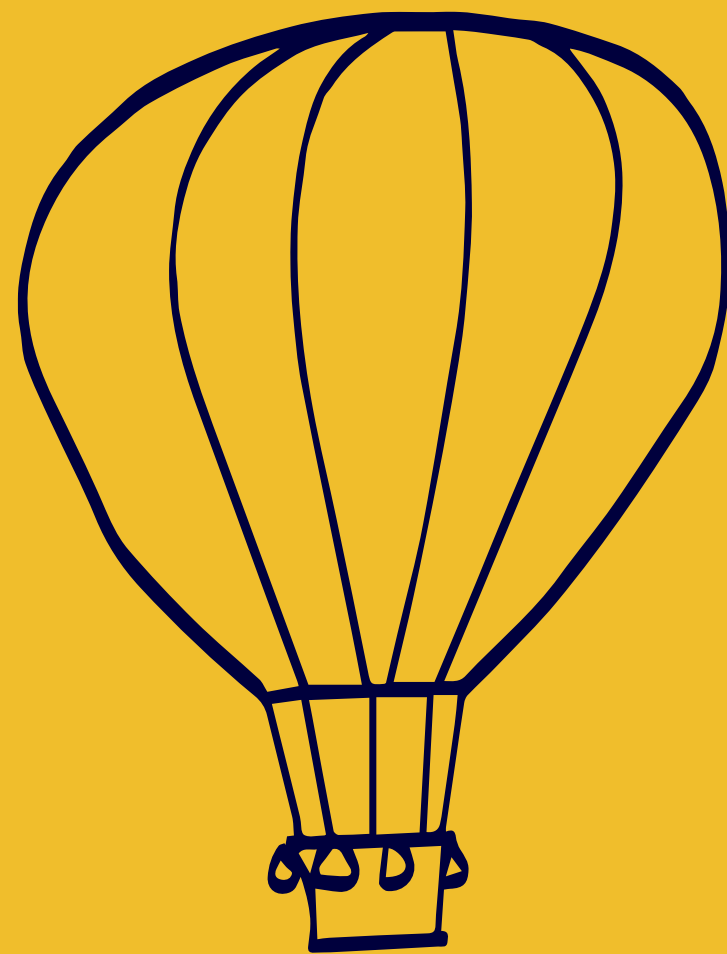
The Subfund is the feeder undertaking of the subfund INVL Emerging Europe Bond Fund (hereinafter - the Master Subfund) of the harmonised umbrella undertaking for collective investment in transferable securities (UCITS) INVL Fund, established in the Grand Duchy of Luxembourg, which constantly invests at least 85 percent of its net assets in the investment units of the Master Subfund.

Investing into Subfund’s investment units is related to the investment risk. Subfund’s past results only show the results of the Subfund’s activities for a past period, and the past period results do not constitute a reliable indicator of the future results. Past results do not guarantee future performance. If the return on investments previously was positive, it will not necessarily be so in the future since the value of investments can both rise and fall, the investor could regain less than invested. The Management Company does not guarantee the profitability of investments. The latest values of the Subfund investment units are published on the website [www.invl.com](http://www.invl.com).

Before making a decision to invest, the investor should personally or with the help of investment advisors assess the Subfund’s investment strategy, applicable fees and all investment-related risks. The investor should also carefully read the Subfund’s Rules, Prospectus, Key Investor Information Document and other documents intended for the investors, which are to be found on the website of the Management Company [www.invl.com](http://www.invl.com) or may be obtained free of charge at the customer centres of the Management Company.

The Subfund uses a composite benchmark index which is chosen to reflect as precisely as possible the investment strategy (asset types and proportions) specified in the Rules and Prospectus, as well as the strategic distribution of the Subfund’s investments.

All the information presented is of a promotional nature and cannot be construed as a recommendation, offer or invitation to invest in the Subfund or any other financial instruments. The information provided here cannot be the basis for any subsequently concluded agreement. Although this information of a promotional nature is based on sources considered to be reliable, the Management Company shall not be held responsible for any inaccuracies or changes in the information, or for losses that may arise when investments are based on this information.



# Investment philosophy

Where does the value come from?

## Subfund facts

- **Inception:** 2010-10-29
- **AUM:** EUR 31 M (master fund) / EUR 8 M (subfund)
- **Strategy AUM:** EUR 325 M
- **Subfund ISIN:** LTIF00000468
- **Management fee:** 0.45%
- **Maximum subfund level TER:** up to 2%\*
- **Management company:** INVL Asset Management
- **Custodian:** AB SEB bankas

**Morningstar**



\*Notional TER in 2022 was 2.25% and exceeded 2% because Notional TER by definition includes indirect costs stemming from master fund

Rankings as of July 31<sup>st</sup> 2023

**Focused Emerging Europe government and corporate bonds TOP picks****Objective:**

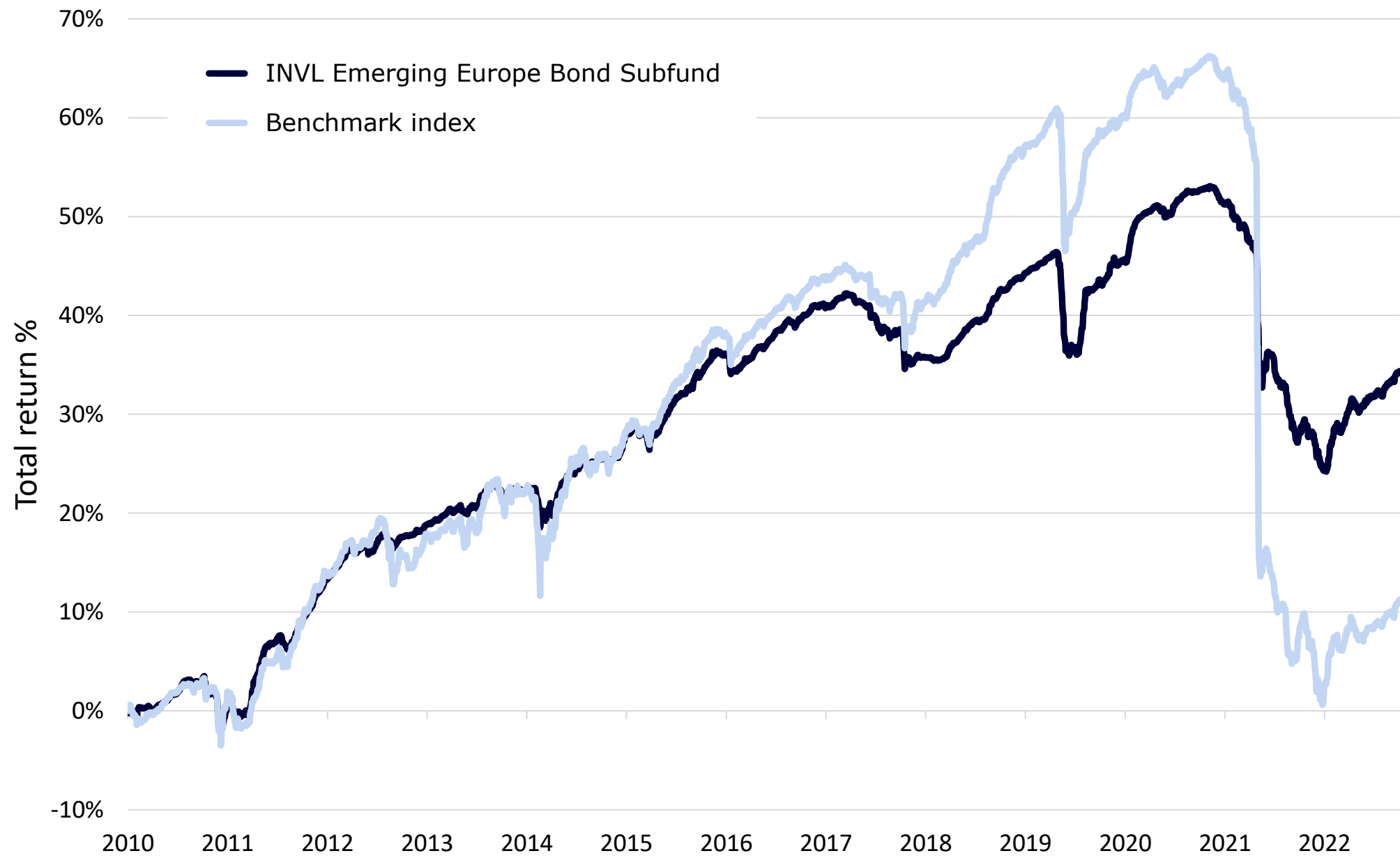
maximization of risk-adjusted returns (**Sharpe ratio**) and minimization of drawdowns

**Strategy:**

- Focus on **hard-currency short-term sovereign and corporate debt securities** in Emerging Europe (currency risk hedged to EUR)
- Current average credit rating: **BBB-**
- Yield to maturity: **7.0%** (in EUR terms);
- Duration: **2.7** years



# Subfund's performance against the benchmark since inception (2010-10-29)

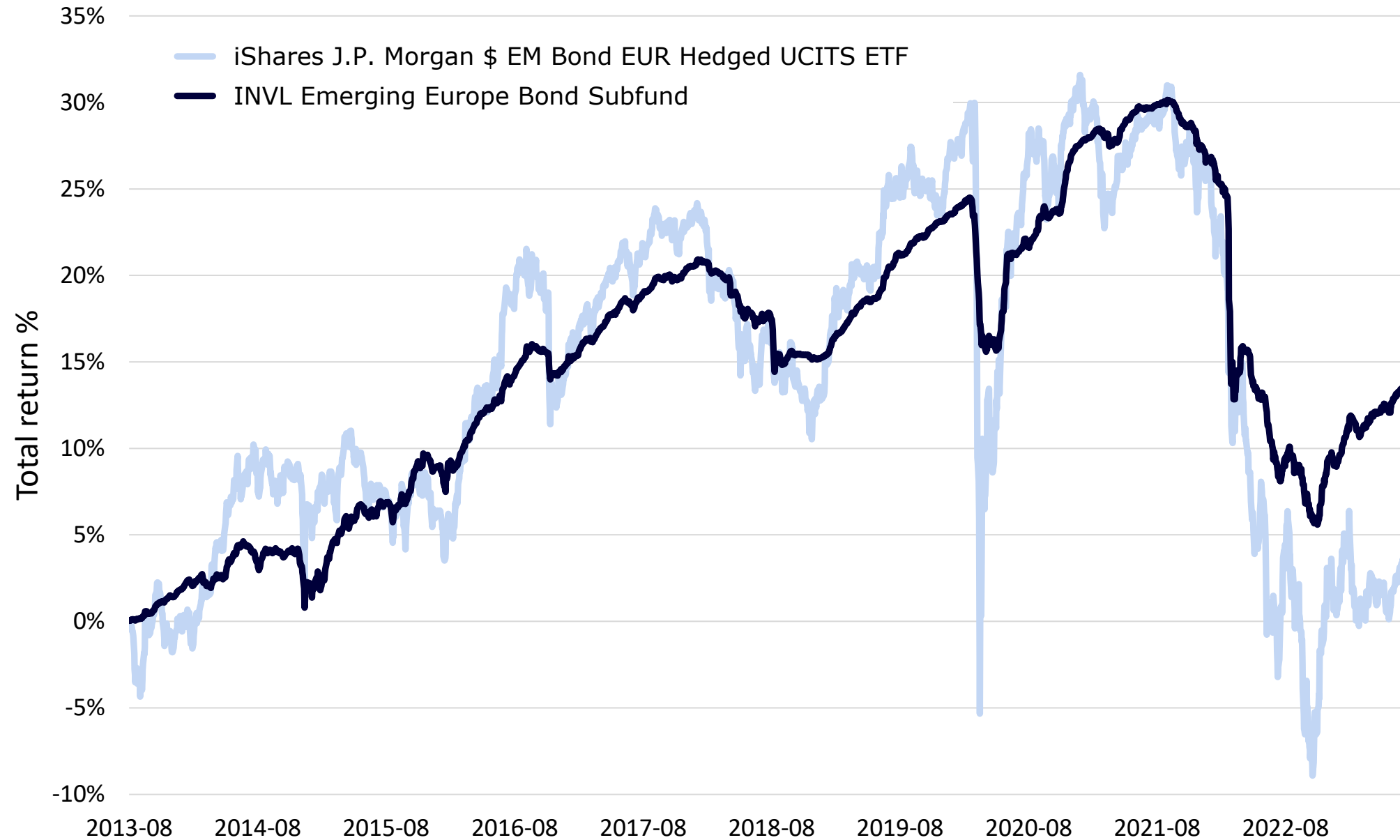


	Annualized return	Volatility	Sharpe
<b>INVL subfund</b>	2.3%	2.3%	1.0
<b>Benchmark*</b>	0.8%	5.6%	0.2

Since inception, the subfund has earned substantially higher return but with lower volatility, therefore, offers a better risk-return profile

Source: INVL Asset Management, July 2023  
 \*Benchmark index: 50% J.P. Morgan Euro Emerging Markets Bond Index 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)

# Superior characteristics compared to EM government debt ETF

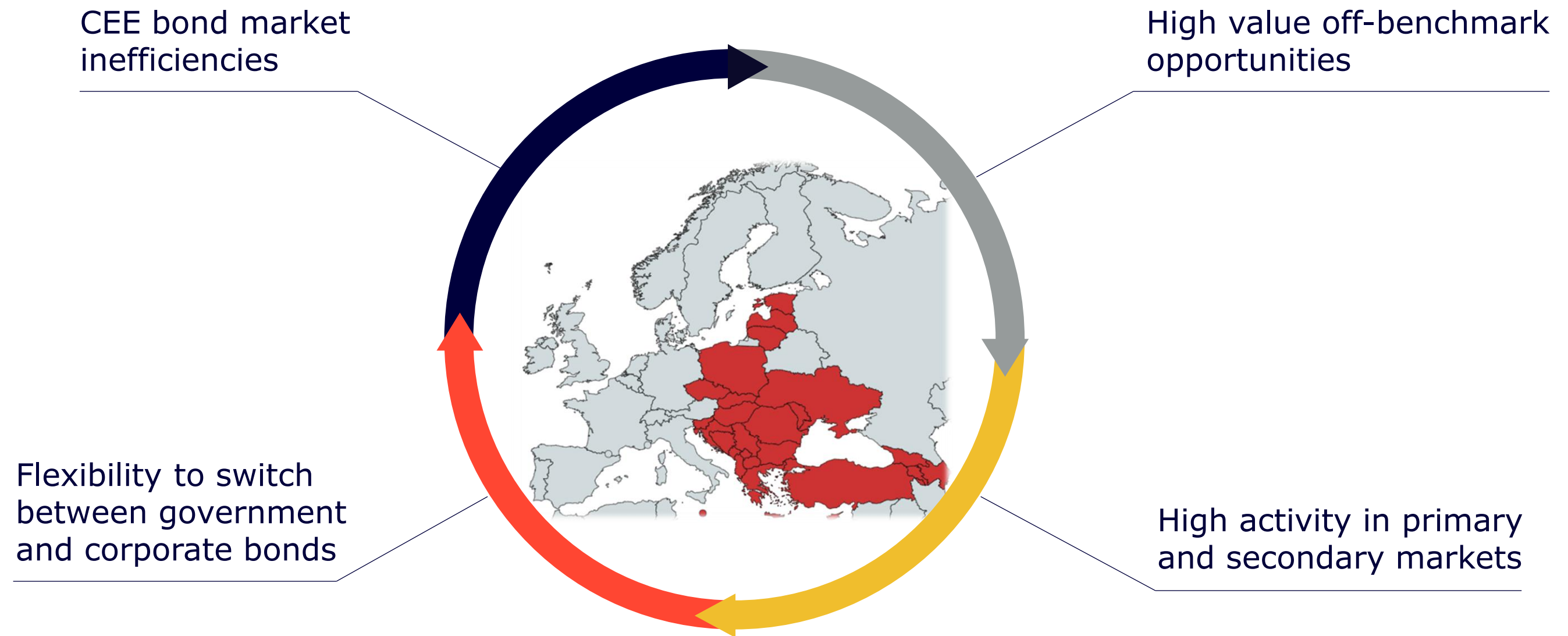


	Annualized return	Volatility	Sharpe
<b>INVL subfund</b>	1.3%	2.4%	0.6
<b>EM bond ETF</b>	0.5%	9.3%	0.1

Over long-term, the subfund has earned substantially higher return but with lower volatility, therefore, offers a better risk-return profile

Source: INVL Asset Management, BlackRock  
Returns for the ETF are available since 2013-08-05

## Components of Subfund's return





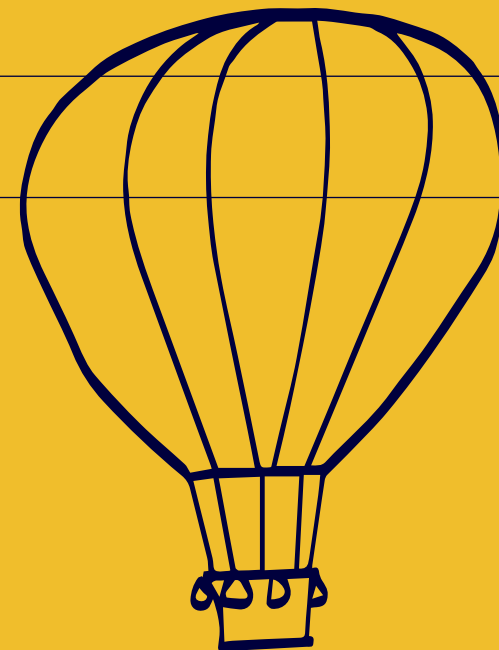
## High value off-benchmark opportunities: case study

### Akropolis Group:

- Value of investment property at over 1 billion EUR, combined GLA of 330.000+ m<sup>2</sup>;
- ~1000 tenants and annual footfall of 41 million people.
- Solid fundamentals, strong and stable cash flows, decent debt level – **net LTV as of 4Q22 was 28%. Occupancy rate at 98%, net rental yield ~7%**
- Credit rating is one notch below IG (BB+/BB+) because company is small by global standards, while its financial metrics are solid.



**9%**  
yield to  
maturity

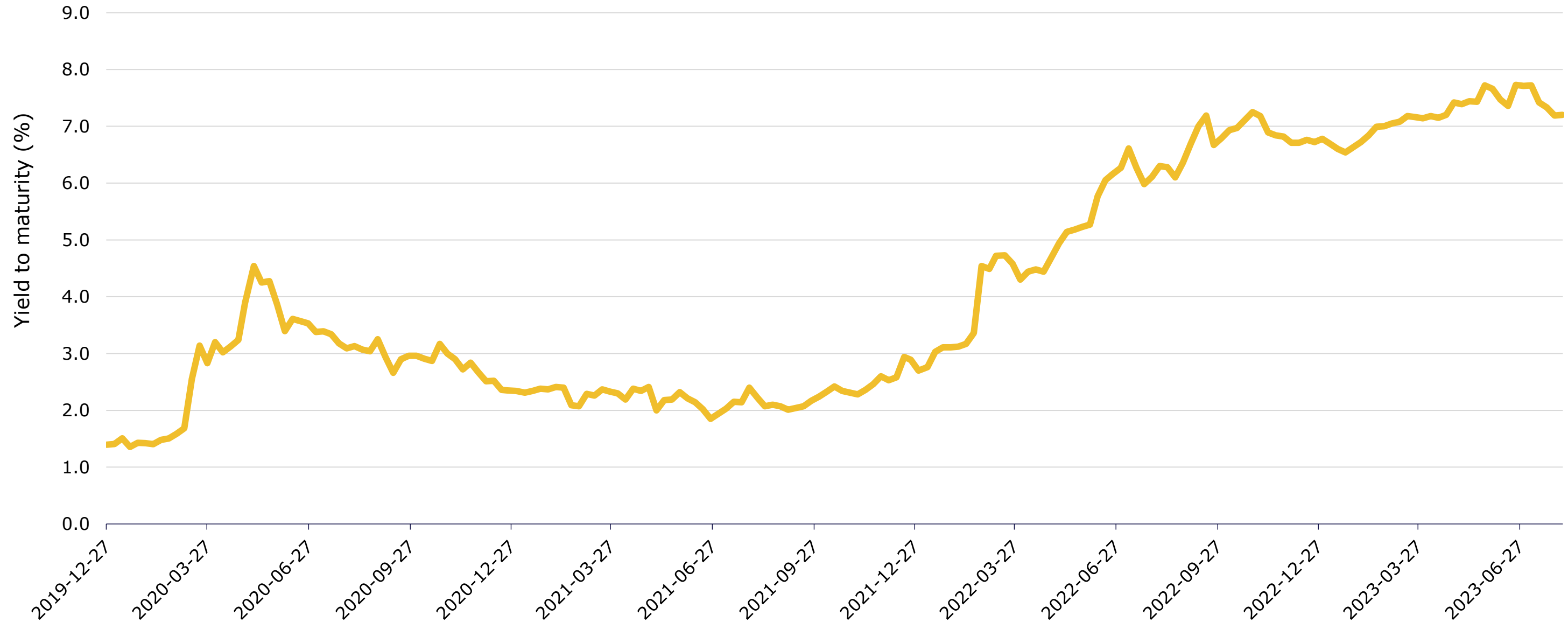


# **Main characteristics and comparisons**



# Subfund's yield has recently gone up while duration remained stable

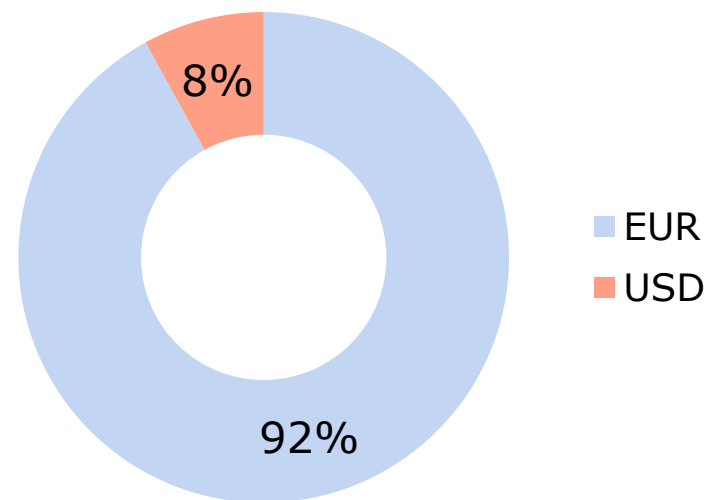
## INVL Emerging Europe Bond Subfund YTM



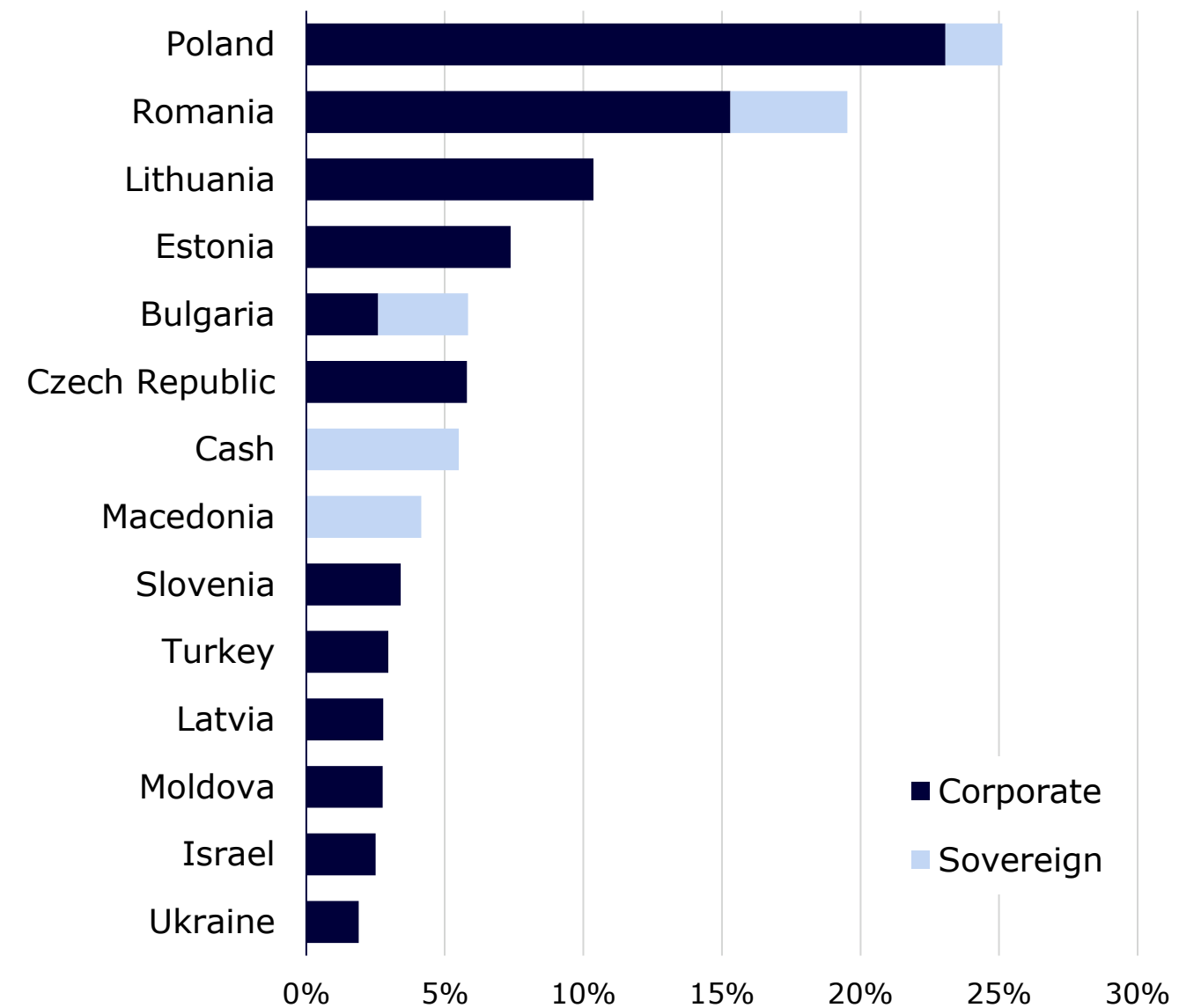
Source: INVL Asset Management, July 2023  
\*YTM is provided for master fund portfolio positions, into which the subfund invests up to 100% of its assets

# Subfund portfolio characteristics

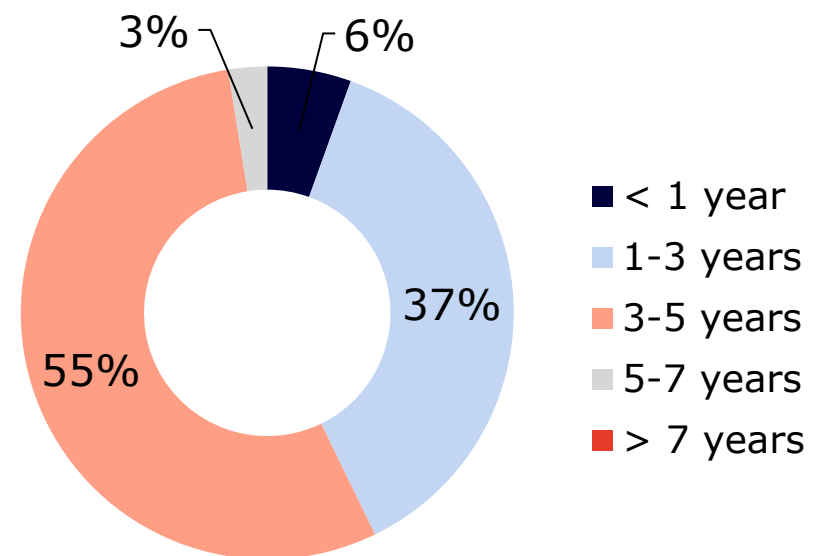
## Currency



## Country and credit profile



## Duration



Source: INVL Asset Management, July 2023  
 \*Investment breakdown is given under a look-through principle for master fund positions, into which the subfund invests up to 100% of its assets

## 5 largest positions

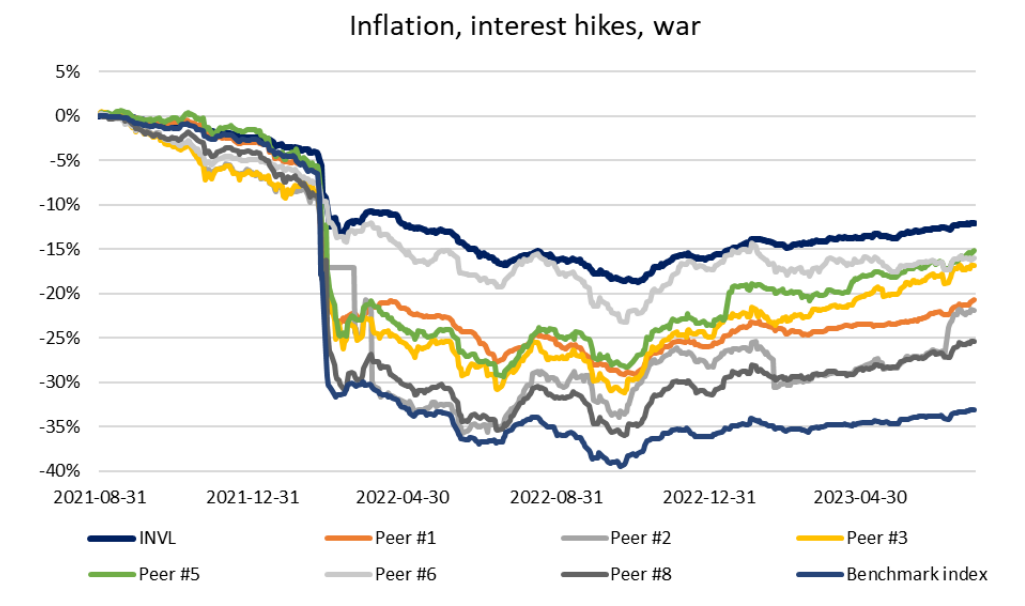
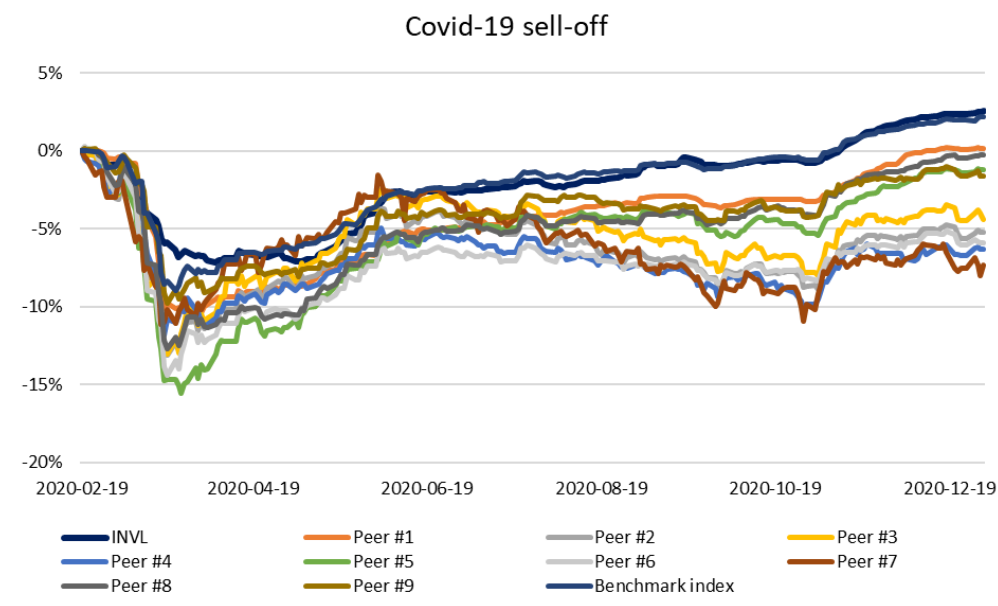
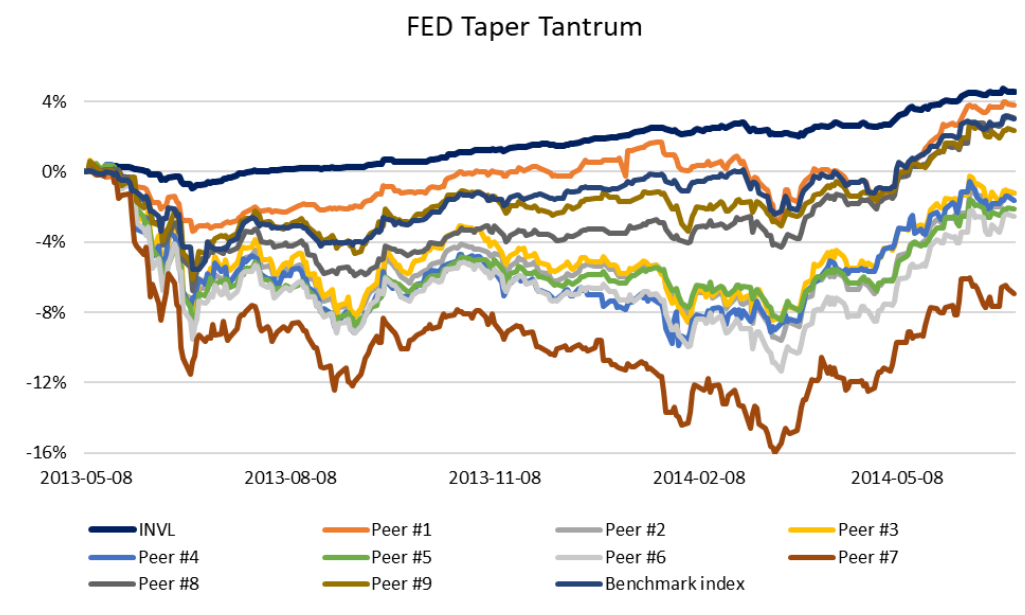
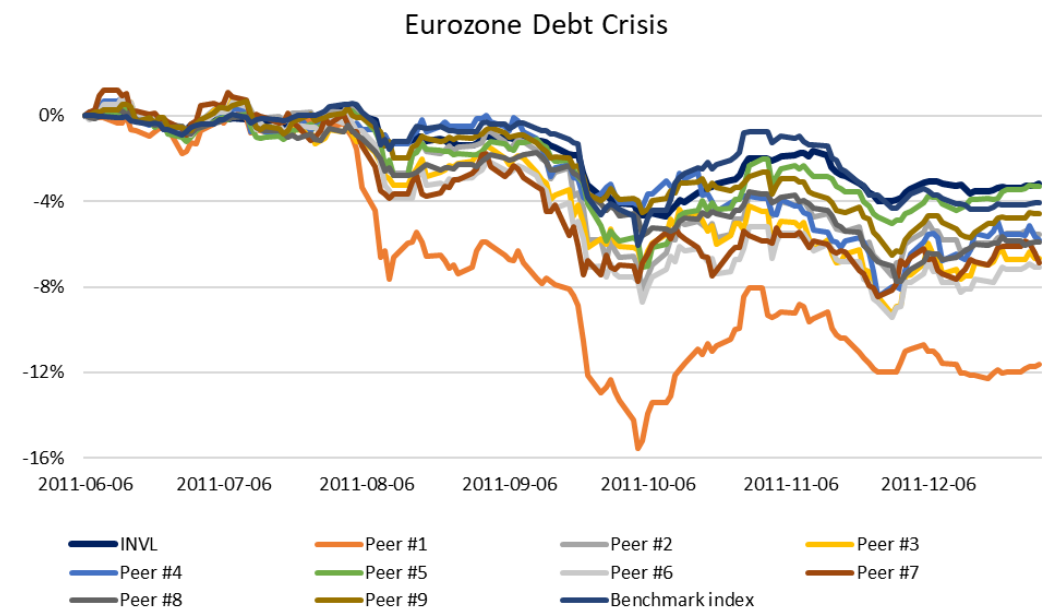
PEPGRP 7 1/4 07/01/28 (Pepco Group)	6.3%	<ul style="list-style-type: none"> <li>• Large-scale discounter operating from around 4,000 stores in 20 countries in Europe;</li> <li>• Impressive growth track record and robust business model;</li> <li>• Financials are intact (ND/EBITDA at &lt;2x, strong generational capacity of cash from operations) and company received BB+/BB-/Ba3 ratings;</li> </ul>
AKRPLS 2 7/8 06/02/26 (Akropolis)	6.1%	<ul style="list-style-type: none"> <li>• Dominating shopping and entertainment center operator in the Baltics;</li> <li>• Attractive around 9% YTW for BB+ rated less than 3Y duration issue;</li> <li>• Conservative net LTV at 28% as of 2022 Q4.</li> </ul>
MSPSJ 4 1/4 05/19/26 (MAS Real Estate)	4.3%	<ul style="list-style-type: none"> <li>• Real Estate management company in transition from Western Europe to Central Eastern Europe real estate exposure;</li> <li>• Rated at Ba1/BB;</li> <li>• Over 10%+ YTW for less than 3Y duration.</li> </ul>
MAXGPE 6 1/4 07/12/27 (Maxima Group)	4.3%	<ul style="list-style-type: none"> <li>• Biggest grocery retailer in the Baltics operating in defensive retail sector;</li> <li>• Solid fundamentals, acceptable debt levels, dominant market share;</li> <li>• Strong rating at BB+ offering over 6% YTW for a 4Y maturity bond.</li> </ul>
SNSPW 2 1/2 06/07/28 (Synthos SA)	4.2%	<ul style="list-style-type: none"> <li>• Leading European producer of synthetic rubber and insulation materials;</li> <li>• Moderate leverage (ND/EBITDA at 2x) and access to equity injection;</li> <li>• Senior secured issue offering 7.5% YTW for lower than 6Y duration and BB+/BB/Ba2 rating.</li> </ul>

Source: INVL Asset Management, July 2023

\*Position weights are given under a look-through principle for master fund positions, into which the subfund invests up to 100% of its assets



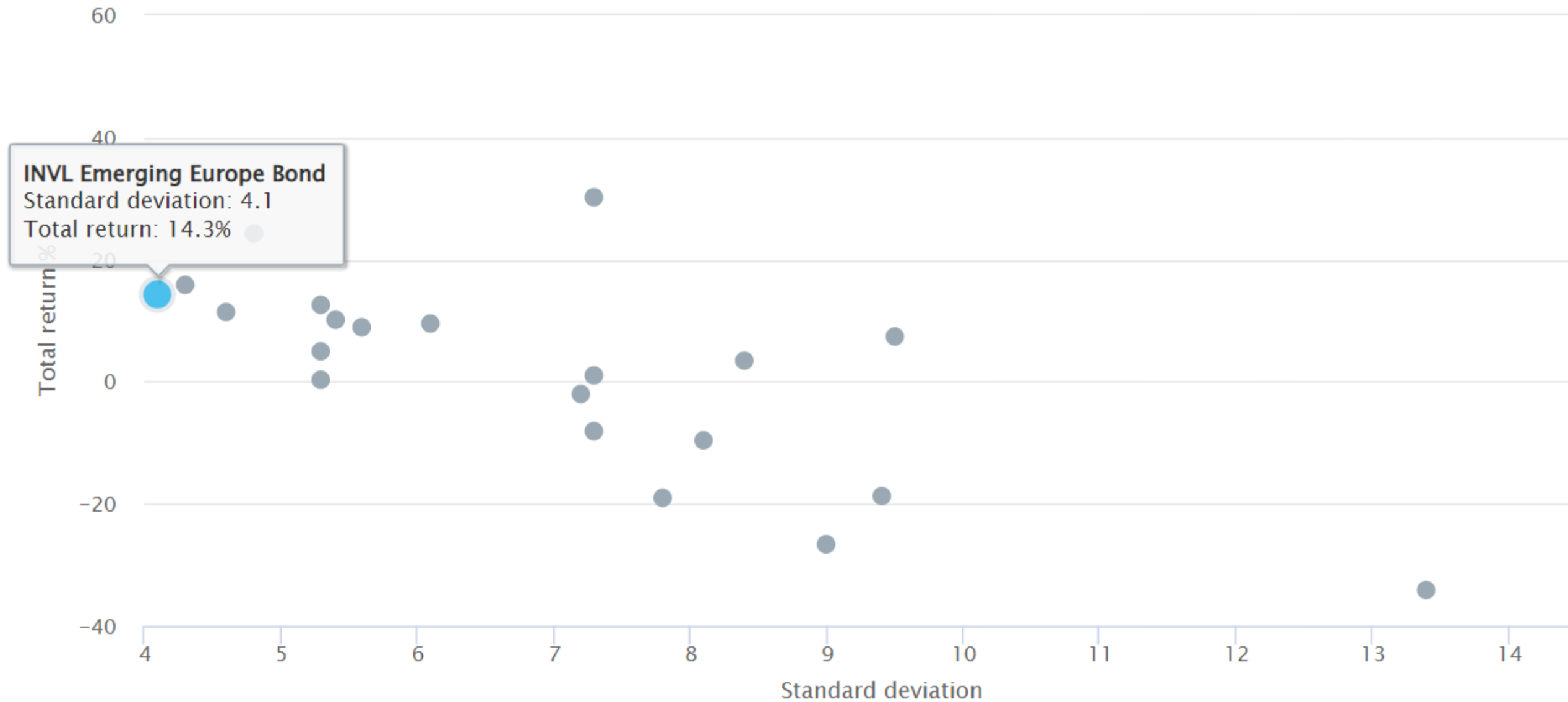
# Value of risk management strategy in turbulent markets – total returns



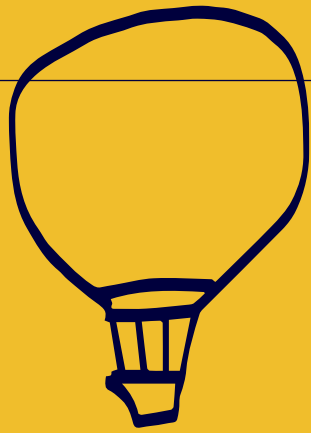
Source: INVL Asset Management. July 2023  
 \*Multiple peers were liquidated during 2022, so their returns are no longer displayed in the latest graph. Peers have been selected based on internal evaluation in effort to find comparable funds that focus on CEE region. However, the list of peer funds may not be exhaustive and may have performed differently in distinct scenarios.

# Favorable comparison with peers over last 10 years

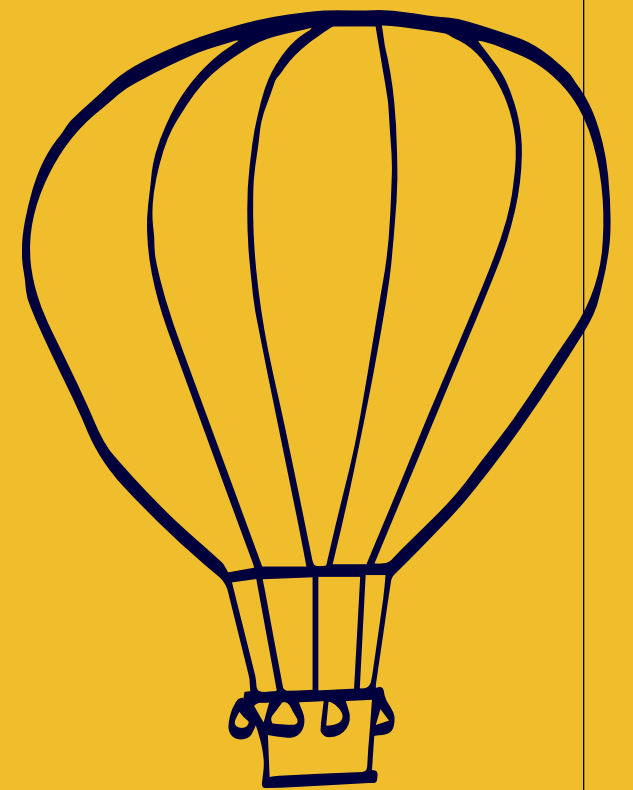
## Return vs Risk



Source: Citywireselector.com (Comparison with peers over 10 years) as of July 2023.



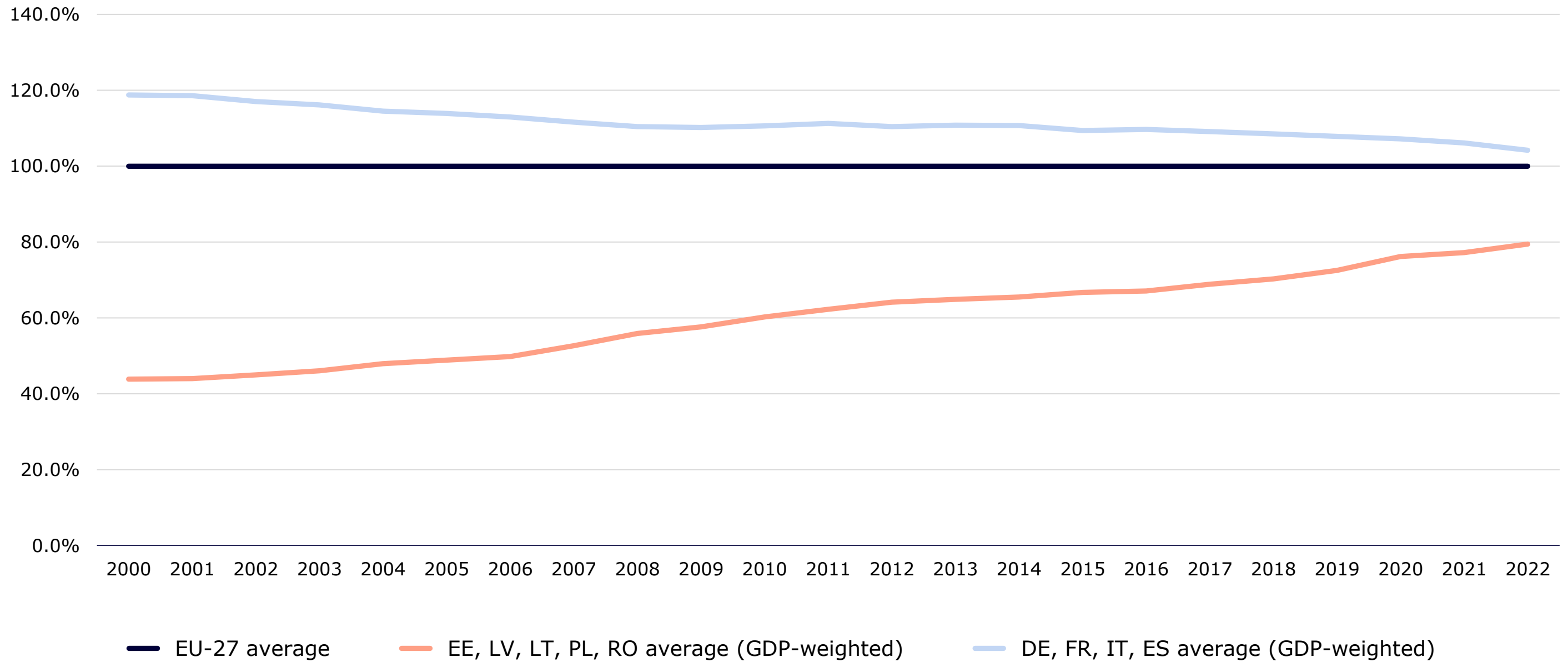
# **Why CEE region and what are its main characteristics?**





# Very evident and attractive convergence story

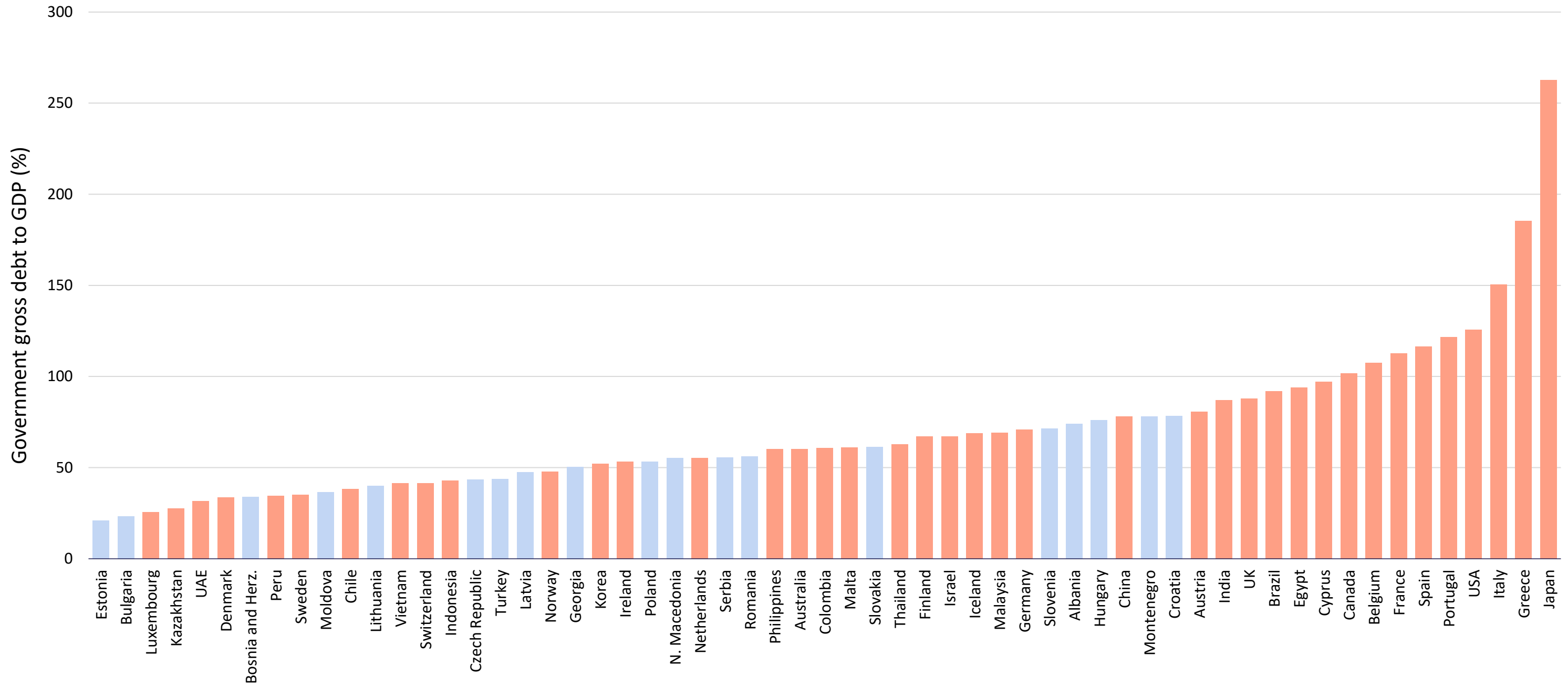
## Purchasing power adjusted GDP per capita as % of EU-27 average



Source: Eurostat



# CEE region is clearly not as leveraged as many EU and global peers



Source: IMF. 2022 estimate figures



## Asset class

Under-researched region which offers attractive opportunities for active bond selectors.



## Team

Experienced team with solid track record in very active management of Emerging Europe bonds and equities.



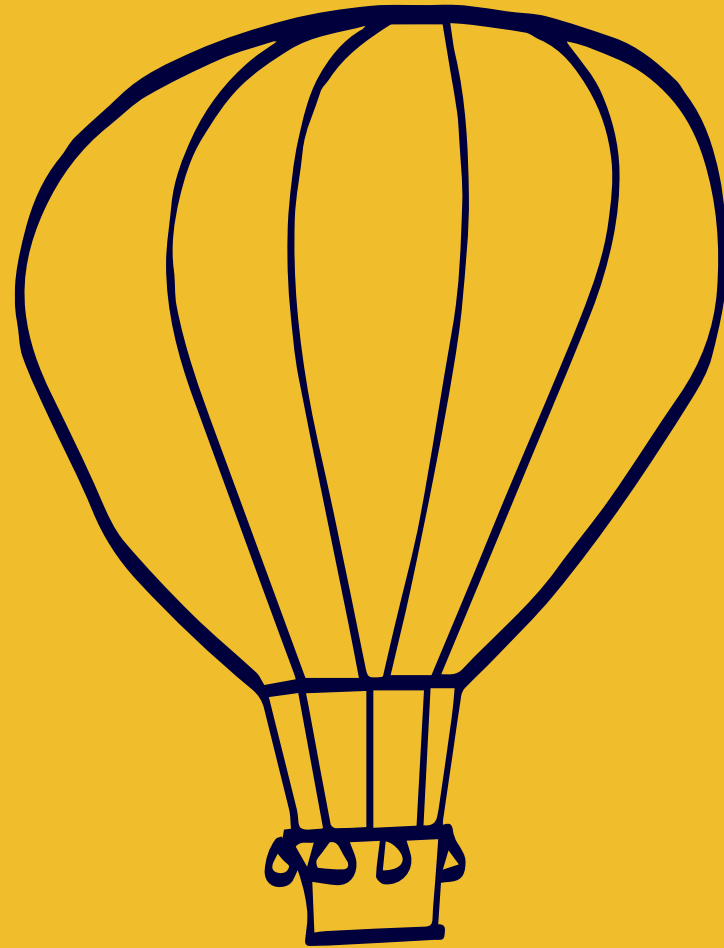
## Strategy

A proven strategy of bottom-up bond picking and exploiting market inefficiencies to generate alpha.

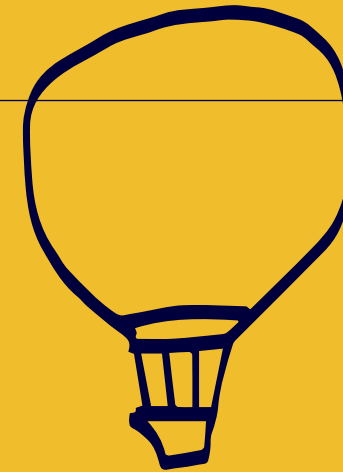


## Balanced risk / return

Short duration and hard currency investments that allow to earn sufficient returns with very moderate drawdowns.



# Additional information



# **Invalda INVL group**



# Invalda INVL: investment management and life insurance group\*



- FOUNDED IN 1991**
- PRIVATE EQUITY PIONEERS IN THE BALTICS**
- LISTED ON THE STOCK EXCHANGE SINCE 1995**
- EXECUTED DEALS WORTH MORE THAN €2.0 BILLION**

<b>Pension funds</b> II pillar   III pillar	<b>Investment funds</b> UCITS	<b>Alternative investments</b> PE, real assets, private debt, renewables	<b>Family Office</b>	<b>Life insurance</b>
<b>300 000</b> Private and institutional clients (regional and international)	<b>€2.0 billion</b> Total AUM Q1 2023		<b>35</b> Investment professionals 270+ employees	
<b>EQUITY</b> <b>€131.7m</b> Q1 2023			<b>MARKET CAPITALIZATION</b> <b>€148m</b> 31 March 2023	

\*Invalda INVL is 100% sole shareholder of UAB "INVL Asset Management" which manages, including but not limited to, INVL Emerging Europe Bond Subfund. To find more information about Invalda INVL group companies, please visit a link: <https://www.invaldainvl.com/apie-mus/glausti-faktai-apie-invalda-invl/>

# **ESG & sustainability**

## ESG integration (Article 6 subfund)

On the company level:

*Signatory of:*



ESG factors applied across all firm's strategies and are grounded in investment team's mindset.

In fixed income:

"Avoid" approach with focus on downside risks

Two main ESG strategies used across fixed income strategies:

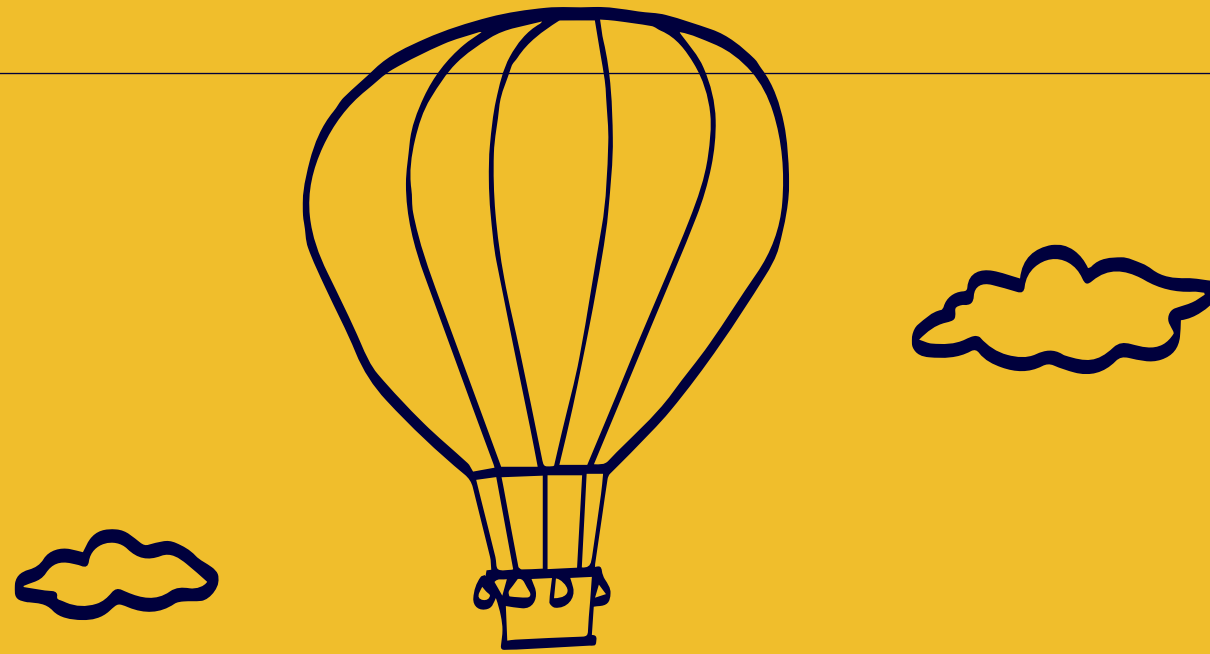
### **Negative / exclusionary screening**

- No involvement / significant income from weapon production and sales, tobacco, alcohol, gambling, pornography sectors.

### **ESG integration**

- Bloomberg ESG score which includes a set of standardized ESG metrics is considered in investment decision making.





**Thank you & all the best  
in the good work  
that you do**