LHV Euro Bond Fund

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Comment from the fund manager

Romet Enok

ISIN	EE3600001921
FOUNDED	02.12.2024
START OF OPERATION	28.01.2025
BASE CURRENCY	EUR
ASSET CLASS	BONDS
FUND SIZE	12 735 432

The LHV Eurobonds Fund began investing activity on 28 January following the unit subscription period. By spring, the portfolio had largely been assembled. We made the lion's share of investments on the aftermarket, purchasing securities that had been issued earlier, but also took part in three public issues. By the end of the year, the fund had achieved a return of +2.3%. Significantly, the fund did not lose money on any of the 35 investments made during the year.

Our first goal for return was to outperform the interest rates offered on savings deposit holders. Time has shown that pricing of term deposits on the Estonian market is closely related to movements in the Euribor. This is due to understandable reasons – the volume of deposits outstrips the volume of loans on the Estonian market and the Euribor is the reference rate for the majority of loan products. Although the overwhelming majority of our fund's investments – bonds traded on the European market – are not floating with the Euribor but have fixed interest rates, these rates are closely connected to expectations for the Euribor. In addition, as with any lending product, a margin is applied. In other words, we believe that the interest income generated by bonds alone is a strong basis for competing with savings deposit interest rates. Our other income source for the fund is gains from bond price movements. Unlike funds invested into deposits, bonds are tradeable every working day. Our experience in managing bond portfolios in the last two decades has been that on average over a longer period, it offers discerning investors an additional source of return. It should however be stressed that while interest steadily accrues on investments every day, the return component stemming from price movements is very unevenly distributed over time. Put simply, there are very good years and also years where the component is minimal or non-existent.

By the end of the fund's first year of activity, we are about to reach the first goal. As mentioned, none of the investments were in the red in the first year. The result was not dependent on any one movement, but from interest accruing daily on all investments. The second component – price movements generating additional return – can be illustrated by an example from the period from spring to December, our sale of Polish Development Bank bonds in September, one of the first investments the fund had made. To sum up, 2025 was nevertheless a year of very modest price movements on the bond market.

TOP 10 ISSUERS	
JP MORGAN CHASE & CO	6.10%
SKANDINAVISKA ENSKILDA BANKEN AB (SEB)	5.73%
INVESTOR AB	5.16%
KBC GROUP NV	4.96%
BANCO SANTANDER SA	4.13%
ING DIBA AG	4.11%
OP MORTGAGE BANK	4.02%
DBS BANK LTD	3.95%
CREDIT AGRICOLE HOME LOAN SFH	3.87%
ERSTE GROUP BANK AG	3.83%
10 BIGGEST TOTALS	**45.86%**
DIFFERENT INVESTMENTS	**32**

AVERAGE BONDS PERFORMANCES	
AVERAGE YIELD TO MATURITY	3.15%
AVERAGE DURATION	2.95
AVERAGE CREDIT RATING	Aa3

The past performance of the investment fund does not guarantee or indicate the future performance of the fund in subsequent periods. The information provided should not be construed as investment advice, an investment recommendation, or any other investment or ancillary service. Please refer to the fund's prospectus and the key investor information, and request additional information lhv.ee/en/investment-funds. The LHV Euro Bond Fund is managed by AS LHV Asset Management. The historical average returns of the fund for calendar years are presented as geometric averages.

By year's end, the LHV Eurobonds Fund portfolio consisted of three major securities groups – covered bonds and Scandinavian companies, each making up about one-quarter, and large American and European banks, together having almost one-fifth of the assets. Covered bonds are bonds issued by banks on the basis of special regulations with specific collateral attached. In our case, the collateral is only the highest-rated assets – home loans issued by banks, which in our case are distributed between German, Belgium, Swedish, Finnish, French, Spanish and Singaporean banks. Scandinavian companies play a key role in our companies we invest in. The economies of Sweden, Finland and Norway have among the world's highest credit ratings and the mentioned companies are market leaders in their area of activity regardless of whether they cater to the domestic economy or international markets. The fund's three largest investment positions are the largest bank in the US JP Morgan, Sweden's SEB Bank and the Wallenberg family's investment company Investor AB. We invest into the economies of countries with different currencies but the investments made by the fund are placed only in euros, regardless of the location, and so currency rate fluctuations do not have any influence on the value.

Although our investment style is heavily centred on selection of individual companies and securities, interest rates and their trend intrinsically play a very important role in the end result on the bond market. Short-term bonds and deposits are significantly influenced by central banks, while longer-term bonds are influenced by the balance between supply and demand. At the beginning of last year, the new German cabinet took office with a pledge of major changes to the country's budget policy. The planned rise in defence spending and investments will increase borrowing and push interest rates upward. Higher interest rates would mean more income for investors in bonds in the long run, but could first mean losses if old bonds dropped in price. That is one of the reasons we currently avoid long-term bonds, although we also have a general policy of steering clear of them. In a bond portfolio, it is easy to show a higher ongoing yield in two ways – by investing either in long bonds or in higher-risk companies. Neither approach is normally our style. In both cases, the risk taken to display this yield often remains hidden, only becoming apparent later through price declines.

The interest rates offered on corporate bonds continue to be appealing compared to the alternatives. Besides the existing bonds, the primary market continues to develop, attaining a record level last year, where close to 10 companies a day raised new capital. We screen attractive bonds from old securities as well as the new ones issued each day. More and more American and Asian companies have started issuing bonds on this market, and we analyse them equally with European companies. An increasing number of companies have started issuing more than one type of bond. We assess each security separately and leave no stone unturned. The more alternatives, the higher the expected return.

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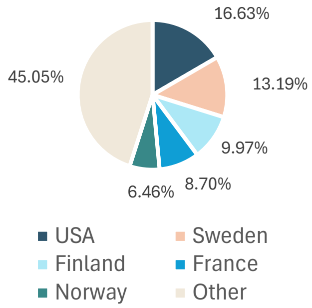
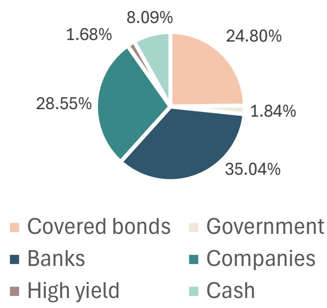
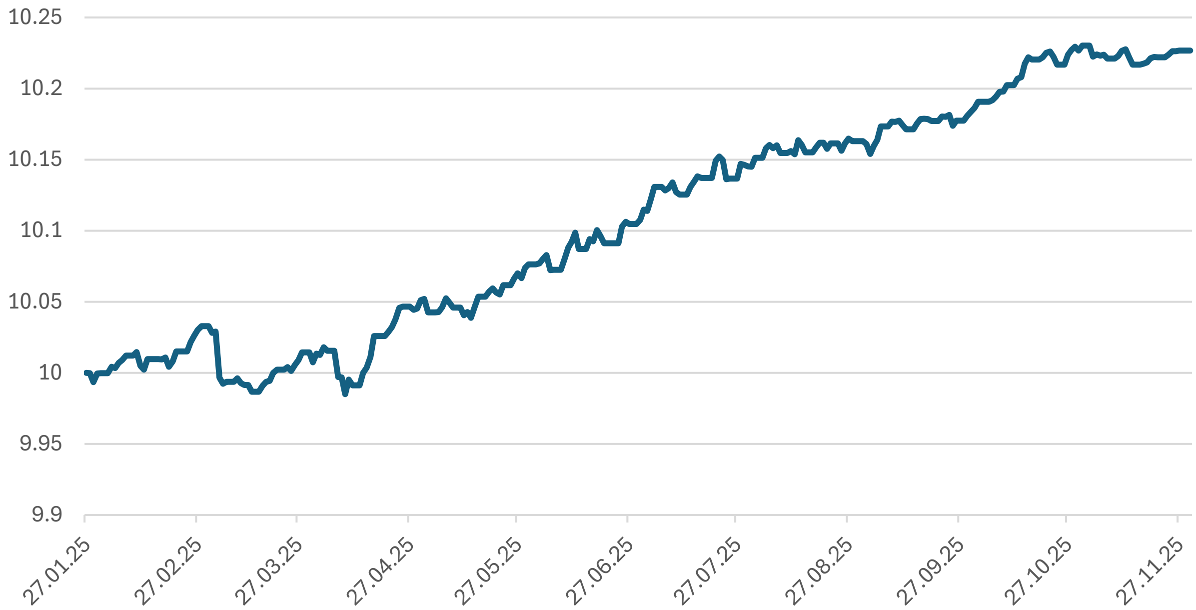
Geographical distributions



Sectors



Unit price movement



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