

# VIG Czech Short Term Bond Investment Fund

I series CZK MONTHLY report - 2023 AUGUST (made on: 08/31/2023)

## INVESTMENT POLICY OF THE FUND

The Fund aims to increase the value of its assets under management and to provide investors with a higher yield than Czech bank deposits and short-term bonds over a period of 1 to 2 years. No individual investor's decisions can be made in the Fund. The Fund Manager selects portfolio elements in accordance with the above principles (Section 11). When making investment decisions, the tools of fundamental analysis and technical analysis are used, and the current market sentiment is also taken into account. The Fund primarily invests in discount treasury bills issued by the Czech State, sovereign bonds, bonds of quasi-sovereign companies, or bonds or deposit-like instruments issued by the Czech National Bank, the European Central Bank or the central bank of another Member State of the European Union. To a limited extent, the portfolio may include government securities, state-guaranteed bonds, corporate bonds (including those issued by financial institutions) and mortgage bonds with at least investment-grade credit rating. Investments may be made in Czech crowns or, to a limited extent, in other currencies. In the case of assets denominated in a currency other than Czech crowns, the Asset Manager shall strive to fully hedge foreign exchange risks (there cannot be a difference of more than 5% between the currency exposure of the derivative transaction and that of the asset to be hedged).

The Fund may enter into deposit and repo transactions, invest – to a limited extent – in units in collective investment undertakings, and derivatives may as well be used (for the purposes of hedging or building an efficient portfolio).

## MARKET SUMMARY

During the month Czech bond yields remained more or less stable for shorter tenors, and increased by 10-20bps for longer tenors, mainly on the back of core market moves. Headline CPI inflation decreased to 8,8% YoY in July, in line with consensus expectations. The details of CNB's core data showed the tradable core CPI growth decelerating to 7%YoY in July 2023 from 8.4% a month earlier and the non-tradable core CPI eased to 6.7% from 6.9%. Q2 2023 GDP growth declined by 0,4%, slightly better than it was expected. Retail sales ex auto declined by 4,1% YoY which was better than expectations and previous month data. NSA Industrial output declined by 2,9% YoY in July, which was a negative surprise, though. The year-to-date cash state budget showed a deficit of CZK195bn, which is CZK37bn narrower compared to a year earlier, and better than a month earlier. This reflects an acceleration in YTD revenue collection to 22%YoY, and there was a deceleration in YTD expenditures to 15%YoY. A MinFin draft of state budget proposal envisages a deficit of CZK252bn in 2024 (-3.2% of GDP according to estimates) after CZK295bn planned for this year. Budget is in better shape in the Czech Republic than in other regional countries. Headline CPI is forecasted to ease to around 3%YoY in Q1 2024 from around 8.5%YoY in Q4 2023, which is a -5.4pp difference. Although, headline CPI numbers may be quite close to each other at the end of 2023 for Czech Republic, Hungary, Poland and Romania (around 7-8%), striking difference comes from (core) inflation evolution early next year. While in Hungary and Poland both headline and core inflation may be still around 7-8% in Q1 2024, in the Czech Republic it is forecasted to be around 2-3%. In theory, Czech Republic should start easing cycle in main policy rate as the first regional country, however in praxis Poland may be earlier due to elections this year. We think core CPI dynamics will be key for the timing of the first cut in the Czech Republic and koruna's performance will be key for its size. The labour market remains key headwind for disinflation according to CNB's Minutes and not only in the near-term, but also in the medium-term given its structural challenges. The Bank Board dislikes the idea of cutting the policy rate in Q3 as suggested by the CNB's baseline forecast due to elevated core CPI (3.5%YoY in 2024) and the koruna's strong sensitivity. One of arguments to see lower policy rate in 2024 is the real interest rate. 7% nominal policy rate less inflation outlook for 2024 in range of 2-3%YoY (the CNB expects 2.1%YoY in 2024) implies the ex-post real policy rate in range of 4-5%. This is much higher compared to around -1.5% ex-post real policy rate expected for Q4-2023. In our view, sooner or later economic activity should decrease further globally and potential risk off periods should cap further increases of core market yields.

## GENERAL INFORMATION

Fund Manager:	VIG Investment Fund Management Hungary
Custodian:	Erste Bank Hungary Zrt.
Main distributor:	VIG Investment Fund Management Hungary
Benchmark composition:	The fund has no benchmark
ISIN code:	HU0000731799
Start:	07/03/2023
Currency:	CZK
Net Asset Value of the whole Fund:	23,466,374 CZK
Net Asset Value of I series:	23,365,741 CZK
Net Asset Value per unit:	1.007144 CZK

## DISTRIBUTORS

## SUGGESTED MINIMUM INVESTMENT PERIOD

3 mths	6 mths	1 yr	2 yr	3 yr	4 yr	5 yr
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## ASSET ALLOCATION OF THE FUND

Asset	Weight
Assets with over 10% weight	
CZGB 2024/12/12 0% (Cseh Állam)	
CZGB 2026/06/26 1% (Cseh Állam)	
CZGB 2026/02/26 6% (Cseh Állam)	

## RISK PROFILE

1	2	3	4	5	6	7
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← Lower risk Higher risk →

# VIG Czech Short Term Bond Investment Fund

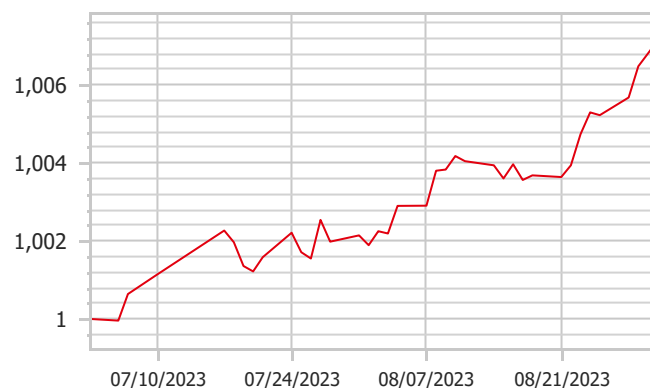
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## NET YIELD PERFORMANCE OF THE SERIES

Interval	Yield of note	Benchmark yield
From start	0.71 %	
1 month	0.50 %	
3 months		

## NET PERFORMANCE OF THE SERIES

net asset value per share, 07/03/2023 - 08/31/2023



— VIG Czech Short Term Bond Investment Fund I series  
— Benchmark

## RISK INDICATORS

Annualized standard deviation of the fund's weekly yields-based on 1 year	0.22 %
Annualized standard deviation of the fund's weekly yields-based on 3 year	0.22 %
Annualized standard deviation of the fund's weekly yields-based on 5 year	0.22 %
WAM (Weighted Average Maturity)	1.57 years
WAL (Weighted Average Life)	1.60 years

## TOP 10 POSITIONS

Asset	Type	Counterparty / issuer	Maturity	
CZGB 2024/12/12 0%	zero coupon	Cseh Állam	12/12/2024	28.67 %
CZGB 2026/06/26 1%	interest-bearing	Cseh Állam	06/26/2026	28.55 %
CZGB 2026/02/26 6%	interest-bearing	Cseh Állam	02/26/2026	17.21 %

### Legal declaration

The recent document qualifies as Portfolio Report according to the Kbtv. requirements. It contains the following elements based on the last net asset value of the reporting month: presentation of the assets of the fund regarding asset type of portfolio investment and regarding other categories detailed in its investment policy; list of assets (issuers) representing more than 10% of the portfolio; net asset value of the fund, including the cumulated and the calculated value per unit share. Investors are kindly advised, that past performance of the fund does not guarantee future performance. The returns presented are to be considered without applicable taxes, distribution fees and commissions, fees related to account keeping and other costs in relation with holding an investment fund unit. Information presented in the Portfolio Report are for information purposes only, not intended to serve as investment advice, or any other offer. Investors are kindly advised to carefully read the Key Investors Document and Prospectus of the fund, in order to understand the risks of investing into the fund, and to be able to make an informed investor decision. The referred documents are available at the distribution locations and on the official website of VIG Fund Management Zrt. VIG Investment Fund Management Hungary | 1091 Budapest, Üllői út 1. | +36 1 477 4814 | alapkezo@am.vig | www.vigam.hu