Institutional report for professional investors

BNP PARIBAS A FUND Dynamic Multi-Asset - Commentary

MONTHLY REPORT

28/03/2024 - 30/04/2024

BNP PARIBAS
ASSET MANAGEMENT

The sustainable investor for a changing world

BNPP AM is the source for all data in this document as at end 30/04/2024, unless otherwise specified.

Executive Summary

General Information

Key Figures (USD)

Fund AUM	23,177,152.23
Share class AUM	5,855,635.65
Number of holdings	19
Outstanding shares	58,401.33
NAV date	30/04/2024
NAV per share	100.27
12M NAV max (22/03/2024)	102.64
12M NAV min (26/10/2023)	88.37

Portfolio Characteristics

Fund Name	BNP PARIBAS A FUND Dynamic Multi-Asset
ISIN Code	LU2019216196
Share Class	Classic
Share Type	Capitalisation
Share Class base Currency	USD
Inception date	14/02/2020
Track record inception	14/02/2020
Share class 1st NAV date	14/02/2020
Share class initial NAV	100.00
Domicile	Luxembourg
Legal Form	SICAV
Fund type	Offered to the public
Asset type	Balanced
Investment strategy	MAQS Institutional Dynamic Solution World
Recommended investment horizon	4 years
Agreement date	14/08/2019
Initial number of shares	29,791.75
Classification SFDR	Article 6
AMF Classification	Not Applicable

Classification SFDR

This product integrates sustainability risk analysis into its investment process within the meaning of Article 6 of EU Regulation 2019/2088.

Involved Parties

Custodian	BNP PARIBAS, Luxembourg Branch
Administrator	BNP PARIBAS ASSET MANAGEMENT Luxembourg
External auditor	PricewaterhouseCoopers Société Coopérative
Management Company	BNP PARIBAS ASSET MANAGEMENT Luxembourg
Portfolio manager	Tina YAO
Fiscal closing rule	March 31st

Order Centralisation & NAV Information

Order centralisation frequency	Daily
Order centralisation time - STP	12:00 CET
NAV centralisation timing / date	Reference Date
NAV calculation frequency	Every business day in Luxembourg
NAV calculation timing / date	Reference Date + 1
NAV valorisation frequency	Daily
NAV valorisation date	Reference Date
NAV settlement timing	Reference Date + 4

30/04/2024 | Report Currency: USD

Executive Summary

Risk Disclaimer

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Risk of Capital Loss

The investments in the portfolios are subject to market fluctuations and the risks inherent in investments in securities. The value of investments and the income they generate may go down as well as up and it is possible that investors will not recover their initial outlay, the portfolios described being at risk of capital loss.

Risk Linked to the Asset Class

The risks associated with investments in equities (and similar instruments) include significant fluctuations in prices, negative information about the issuer or market and the subordination of a company's equities to its bonds. The value of investments and the income they generate may go down as well as up and it is possible that investors will not recover their initial outlay. Portfolios investing in growth stocks may be more volatile than the market in general and may react differently to economic, political and market developments and to specific information about the issuer.

Credit Risk

This risk relates to the ability of an issuer to honour its commitments: downgrades of an issue or issuer rating may lead to a drop in the value of associated bonds.

Operational and Custody Risk

Some markets are less regulated than most of the international markets; hence, the services related to custody and liquidation for the subfund on such markets could be more risky.

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Performance & ex-post Risk

Portfolio Commentary

Market Review

- The first three weeks of April saw global equities decline due to rising geopolitical risks and concerns over the US Federal Reserve's (Fed) policy rate cut scenario. After the air attack by Iran on Israel on 13 April, investors initially became concerned about an escalation of the conflict before concluding that such an assumption was unlikely.

- Investor nervousness about when the Fed might make a move to cut rates - which was again the main driver for markets - was reinforced by the publication on 10 April of US consumer prices in March, which, for the third consecutive time, had inflated by more than expected. The assumption of a cut in key rates in June was then entirely ruled out and only a modest number of cuts are now expected this year.

- These changes in rate expectations led to a rise in bond yields, which in turn weighed on equities and sent implied volatility to almost 20% (VIX index calculated on S&P 500 options), the highest since the end of October 2023. As of 19 April, global equities had returned to their lowest since mid-February, down by 5.1% compared to the end of March (MSCI AC World index in US dollar terms). Global equities managed to regain ground in the last week thanks to good results from major US tech companies, still solid economic data and investors gradual realisation that, despite the likely postponement of the Fed's key rate cut cycle at the end of the year, monetary conditions are expected to gradually become less restrictive in the major developed economies in the coming months.

- However, nervousness remained, as shown by a further fall in equities for the last trading day of April, on the eve of the Federal Open Market Committee (FOMC) meeting. Global equities ended the month down by 3.4%. Emerging market equities outperformed throughout the month, benefiting in particular from the encouraging news finally coming from China. Against this backdrop, Chinese equities gained 6.5% in April (MSCI China index), allowing the MSCI Emerging Markets index in US dollar terms to end slightly up (+0.3%).

- The sell-off seen in developed markets in the first three weeks was highly concentrated among IT stocks due to the rise in yields and probably because some investors took profit on stocks that had risen strongly. The very good results published by the tech giants led to an equally concentrated rebound. The S&P 500 lost 4.2% compared to the end of March and the Nasdaq composite index, which was down by 6.7% month-to-date as at 19 April, ended the month down by 4.4%. In the eurozone, the EuroStoxx 50 index lost 3.2% and the MSCI EMU index (in euros) lost 2.5%. Unlike in previous months, the Tokyo stock market did not benefit from the decline in the yen, which is becoming a serious concern for the authorities. The two main indices fared quite differently: The Nikkei 225 lost 4.9% and the Topix only 0.9%.

- In April, despite the rise in bond yields, the growth and value style both saw similar losses, with a 3.7% decline in the MSCI AC World Growth index and a 3.2% decline in the MSCI AC World Value index.

- The yield on the US 10-year T-note (4.20% at the end of March) rose from the beginning of the month after the release of a strong employment report and a speech by Fed Chair Jerome Powell suggesting he may be a little less convinced of the need to start cutting policy rates before the summer. The 10-year T-note yield ended the month at 4.68% (+48bp compared to the end of March and +80bp since the beginning of the year). The 2-year yield (4.62% at the end of March) approached 5% on 10 April to end the month at 5.04%, a monthly rise of 42bp.

- The yield on the German 10-year Bund (2.30% at the end of March) moved in the wake of US yields, but outperformed due to much less dynamic growth than in the US, the continued slowdown in inflation in the eurozone and the ECB's clear indication that its policy rate cut would occur in June. The German 10-year yield thus hovered at around 2.40% in the first half of the month. It then moved towards 2.50%. The German 10-year government bond yield ended the month at 2.58%, up by 29bp compared to the end of March. The front end of the curve outperformed with a monthly rise of 19bp for the German 2-year yield at 3.03%.

- In April, the credit market held up relatively well despite changes in US monetary policy expectations with investors pushing back timing of first policy rate cut and scaling back the number of rate cuts this year. Credit spreads widened in the risk-off phase but ended the month roughly at the level prevailing at the end of March. Of course, given the poor performance of government bonds (-1,8 % for German Bund; -2,4 % for US T-note), total returns on credit were negative across all segments, with a sharp underperformance of US dollar indices. In contrast, euro high yield (EUR HY) ended the month practically flat.

Portfolio Activity & Positioning

Our portfolio remains largely unchanged. We remain cautious towards taking on more risk, and the portfolio continues to be well-diversified. We trimmed both equity and fixed income.

Fund Performances

By Sector

- Top sector performance contributor: Emerging Equity and Cash & Cash Equivalent
- Top sector performance detractor: North America Equity, Europe Equity and Real Estate Global

Performance & ex-post Risk

Portfolio Commentary

By Fund

- Top performance contributor: Wellington Emerging Markets Re SHRS and Vontobel Fund - mtx Sustainabl SHRS
  Top performance detractor: Comgest Growth PLC - Europe SHRS, AB SICAV I - American Growth P SHRS and ABN AMRO Funds - Aristotle US SHRS

Outlook & Positioning

- The Federal Open Market Committee (FOMC) met on 30 April and 1 May. Unsurprisingly, the federal funds target rate was kept in the 5.25% -5.50% range in which it has been moving since July. Expectations for the Fed's monetary policy for the rest of the year adjusted sharply after the release of higher-than-expected inflation for the third consecutive month on 10 April. Consumer prices rose by 0.4% between February and March. Year-on-year headline inflation stabilised at 3.8%, from 3.2% to 3.5% (the highest since September 2023). After these figures were released, the assumption of a cut in Fed policy rates was postponed. While there was a broad consensus for a first rate cut in June and a total of 75bp to 100bp in 2024, several experts changed their minds and are not forecasting any cut until September or even December. On 16 April, Fed Chair Jerome Powell acknowledged that it will likely take "more time for FOMC (Federal Open Market Committee) members to be confident that inflation will return to 2%", raising doubts about the Fed's willingness to act over the summer. Nervousness about this theme remained until the end of the month, when the other measure of inflation (core PCE - Personal consumption expenditures price index), too, proved stickier than envisaged a few months ago. Against this background, the probability of a cut in June as reflected by futures markets, which was around 60% at the end of March, fell to 10% at the end of April and only one to two cuts are now 'anticipated' for 2024 (compared to three from the level deemed 'appropriate' at the end of 2024 by FOMC members).

- For a few days, the 10-year yield hovered at around 4.40%, with the rise on the 2-year yield even more modest. From 10 April, yields increased sharply throughout the curve after the publication of price indices showing, for the third time in a row, stickier inflation than expected a few months ago. These results led to an ebb in expectations of a cut in key interest rates by the Fed - a fall in sentiment that no Fed officials, including Jerome Powell, sought to counter. The yield on the 10-year T-note then quickly returned to its highest since November, at more than 4.60%. It closed above 4.70% on 25 April after further concerns about the evolution of core inflation, on a quarterly basis this time. The full set of first quarter GDP figures showed that the first-quarter core personal consumption expenditures (PCE) index (excluding food and energy prices) rose by 3.7% annualised against the 3.4% consensus forecast, suggesting a sharp rebound in inflation in March.

- We expect the market will continue to be volatile as we are entering the end of the rate hike cycle, and so our portfolio remain largely unchanged. We remain cautious towards taking on more risk, and the portfolio continue to be well diversified. We slashed US equity, EM Equity and US Investment on profit taking.

- The broad positioning is as below:

- US equities (Positive). We turned more positive on US tech exposure. From a fundamental perspective, cash flows - earnings + dividends - increasingly hold the key for equity returns, and US tech are earning strongly, corroborated so far this season. Earnings dynamism is judged to be strong in the short term, form both the bottom up and top down, and with good and growing support from themes such as AI for earnings longer term. As 'longer duration' equities, they also stand to benefit from lower discount rates, while being less exposed to a higher for longer than a pure duration play with firm anticipated cash flows. Valuations are not cheap, but the delta on the P and E have both moved favorably for an add to our position; importantly, valuations are justified by elevated RoE and profitability.

- European equities (Negative). In our opinion, inflation might soften but also growth in the months to come. ECB is near its end of rate hiking cycle but not yet ready to cut rate.

- Japanese equities (Positive). forward PE ratios trade at a 15% discount to global equities, and P/B is 50% of ACWI. With a clear structural focus on raising shareholder returns, and high operational leverage to tentative 'green shoots' in global manufacturing as well as to the technology sector, Japan is particularly well placed to benefit from the current market set up. Tighter policy may be supportive for financials.

- Emerging Market equities (Positive). Tactically seeking to take advantage of bombed out/'un-investible' valuations of China with two near term triggers - first, increasing policy support, as the 'red line' for policy intervention seems to be around current growth levels, and second, broadening improvements in global manufacturing and new orders, with low inventory stock.

- Commodities (Neutral). More positive towards precious metals. The supply-demand imbalance softens in the energy and base material space. Only precious metal in the commodities space can perform as the rate hike cycle coming to an end.

- Credit (Positive). Especially towards European investment grade bonds. European IG appears to be pricing in a particularly adverse scenario, making valuation attractive.

- Emerging market local sovereign (Positive): with inflation dynamics for almost all EMs sharply to downside recently, real policy rates are quite elevated. Hence, lower policy rate and long end rate ahead DMs.

- We hold other positions like real estate and US inflation linker for diversification.

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Appendix

Exchange Rates

Exchange Rates

as of 30/04/2024

ISO Code	Currency name	1 USD =
AUD	AUSTRALIAN DOLLAR	1.540002
EUR	EURO	0.935235
GBP	BRITISH POUND	0.798626
SGD	SINGAPORE DOLLAR	1.363750

Appendix

Glossary

Benchmark or benchmark index

Index used to represent the market(s) which a fund is supposed to be invested. It is the standard by which the performance of an investment fund is measured.

Maturity

The time that remains until the rights associated with a financial asset expire. The maturity of a share is in theory infinite, while that of a bond depends on its principal repayment date, or ''maturity date''. A bond's actual maturity may be cut short if the issuer is able to call or redeem the bond before the maturity date.

Maximum drawdown

The maximum loss that a portfolio incurs over a given period (expressed as a percentage), taking into account monthly performance observations.

Basis point

A hundredth of a percentage point, or 0.01% (abbreviated as bp).

Information ratio

The difference between a portfolio's returns and those of its benchmark, divided by the portfolio's tracking error. Measures a fund manager's risk-adjusted performance relative to the benchmark.

$$IR = \frac{Ret_{Fund} - Ret_{Bench}}{TE}$$

Sharpe ratio

A measure of an investment's performance relative to the risk incurred. It is calculated by dividing the difference between the portfolio's return and the risk-free interest-rate by the portfolio's volatility.

$$Sharpe = \frac{Ret_{Fund} - Rate_{riskfree}}{\sigma_{ann.}}$$

Duration

Expresses the potential variation between the price of a bond (or bond portfolio) in response to a 1% change in the interest rate.

$$Modified\ Duration = \frac{Duration}{(1+r)}$$

$$r = bond\ yield$$

Tracking error

The standard deviation of the differences between fund and benchmark returns over time. It represents the risk that the fund manager takes in straying from the benchmark.

$$TE_{ann.} = \sqrt{\frac{\sum_{i=1}^{N}(PR_i - Av(PR_i))^2}{n}} x\sqrt{k}$$

$$PR_i = excess\ return$$

Volatility

A measure of risk as the standard deviation of a portfolio's returns above and below its average return over a specified investment period. For example, if a portfolio has a volatility (risk) of 8% this means that it will on average vary 8% above or below its average return over the investment period.

$$\sigma_{ann.} = \sqrt{\frac{\sum_{i=1}^{N}(P_i - Av(P_i))^2}{n}} x\sqrt{k}$$

Where Avg (P_iis the average of n returns and k is the number of investment periods in the year.

R²

Statistical measure that represents the proportion of a fund or security's movements that can be explained by movements in a benchmark index. R^2 values range from 0 to 1. An R^2 of 1 means that all movements of a security are completely explained by movements in the index.

Appendix

Legal Disclaimer

Legal Disclaimer

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