Institutional report for professional investors

BNP PARIBAS A FUND Dynamic Multi-Asset - Commentary

MONTHLY REPORT

31/01/2024 - 29/02/2024

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 29/02/2024, unless otherwise specified.

Executive Summary

General Information

Key Figures (USD)

Fund AUM	26,069,378.84
Share class AUM	6,722,910.19
Number of holdings	19
Outstanding shares	66,951.09
NAV date	29/02/2024
NAV per share	100.42
12M NAV max (23/02/2024)	100.64
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

29/02/2024 | 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

- Global equities did very well in February, with several indices setting new all-time highs despite forward-looking scenarios yo-yoing in response to varying economic indicators. In the end, equity investors plumped for a fairly positive view on global growth and seemed only moderately concerned about services inflation remaining stubbornly high. While the major central banks' first policy rate cut has likely been postponed, investor assumptions of policy easing in 2024 remain firm.

- The MSCI AC World index in US dollar terms gained 4.2%, ending the month at a record high. Emerging markets did even better (+4.6% for the MSCI Emerging Markets index in US dollar terms) thanks to the rally in Chinese equities, which had a good start to the year of the Wood Dragon (+8.4% for the MSCI China index after falling by 10.6% in January).

- Despite the significant adjustment in expectations of Fed policy easing and the resulting rise in bond yields, equities rose across the board. Solid corporate results strengthened the upward trend, although some investors may have been jittery prior to seeing the results of several major players. More generally, while earnings surprises were high, surprises on sales were more modest. Overall, guidance remained cautious. However, the significance of the artificial intelligence investment theme was underlined by industry comments about very strong demand for semiconductors. Against this backdrop, the MSCI AC Asia ex Japan index rose by 5.5%.

- For developed market indices, their performance reflected the renewed enthusiasm for technology stocks: The S&P 500 surpassed its previous record at close of trading on 9 February, but it didn't stop there. Its upward momentum continued, and the index ended the month at nearly 5 100 points, up by 5.2% from the end of January. The Nasdaq composite index rose by 6.1% and the 'Magnificent Seven' by 12%. In short, the rise in US indices remains highly concentrated. European stock markets also beat their previous records to reach symbolic thresholds (8 000 points for the CAC 40, for example). Their returns were lower than those of the US indices due mainly to different sector weighs within the indices on either side of the Atlantic. The EuroSTOXX 50 gained 4.9% on the month and the MSCI EMU rose by 3.2% (in euro terms). In Japan, the Nikkei 225 index surpassed a record high that had stood since 1989. It rose by 7.9% in February (thus by 17% since the start of the year) despite a mixed economic performance. It was helped by the fall in the yen (-6.0% against the US dollar compared to the end of 2023) as investors questioned the Bank of Japan's willingness to end its ultra-accommodative monetary policy.

- Globally, the outperformance of technology stocks was driven almost entirely by semiconductor companies. The rise in other sectors was smaller. The second biggest was consumer discretionary, which signalled encouraging news for the economy, particularly in emerging markets where the sector is on a par with semiconductors, confirming the strength of domestic demand. The growth style took advantage of the surge in technology stocks to rise by 5.9% compared to the end of January (MSCI AC World Growth index), thus outperforming the value style (+2.4% for the MSCI AC World Value index).

- The yield on the US 10-year T-note rose from the outset, boosted by far-above-expectations jobs data. Statements by FOMC members seeking to lower expectations of a rapid cut in policy rates sent the 10-year yield above 4.30% on 13 February (the highest since the end of November) after higher-than-expected consumer price index figures were published. The 10-year T-note yield ended February at 4.25%, a monthly rise of 34bp. The 30-year yield rose by 21bp to 4.38% while the 2-year yield rose from 4.21% at the end of January to 4.62%.

- In the eurozone, the 10-year Bund yield ended the month at 2.41%, up by 24bp compared to the end of January. The 2-year Bund yield rose by 47bp to 2.90% on 29 February after approaching 3.00% during the day. Peripheral eurozone bond markets outperformed, which was unusual during a phase of global deterioration in government bond markets. The yield on the 10-year Italian BTP rose by 12bp to 3.84%, sending the spread over the German 10-year Bund yield below 145bp, its lowest since early March 2022.

- Credit market total returns suffered from the fall in government bonds (-1.4% for US Treasuries and -1.2% for eurozone sovereigns) despite tightening credit spreads, which reflected investor appetite. Only High Yield (HY) managed to post a slightly positive total return in February. In the year to date, supply has been massive, both in volume of issuance and number of deals, and generally well absorbed as investors search for yield.

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 took profit on equity across region and US high yield.

Fund Performances

By Sector

Top sector performance contributor: North America Equity, Emerging Equity and Japan Equity

Top sector performance detractor: USD Investment Grade, Real Estate Global and EMD LC Sovereign Bond

Performance & ex-post Risk

Portfolio Commentary

By Fund

Top performance contributor: AB SICAV I - American Growth P SHRS, Pictet - Japanese Equity Oppor SHRS and Vontobel Fund - mtx Sustainabl SHRS

Top performance detractor: iShares USD Corp Bond UCITS ET ETFS, Principal Global Investors Fun SHRS and BARINGS EM LOCAL DEBT B USD ACC

Outlook & Positioning

- Beijing finally appears willing to take more proactive measures, especially on monetary policy. While the initial consumption data on the Lunar New Year festivities was encouraging, China's Prime Minister called for pragmatic and forceful' action to boost confidence in the economy.

- There was no Federal Open Market Committee (FOMC) monetary policy meeting in February. The federal funds target rate remains in the 5.25% -5.50% range in which it has moved since the end of July 2023. The Minutes of the FOMC meeting on 30/31 January confirmed the message that several members had reiterated in previous weeks, that the Fed will remain patient until it has 'greater confidence that inflation is moving sustainably toward 2%'. The end-January Minutes revealed that 'most participants noted the risks of moving too quickly to ease the stance of policy'. The implied probability of a first cut in May fell abruptly from around 90% in January to 60% after the employment report and then to 30% after the inflation figures. It ended the month at around 20% and three cuts are now expected in 2024 – consistent with the path indicated in the December 'dot plot' of individual FOMC members' interest rate projections.

- The yield on the US 10-year T-note (3.91% at the end of January) rose from the beginning of the month after the release on 2 February of job creations data that was well above expectations. This rising yield trend, fuelled by consistent statements by FOMC members seeking to lower expectations of a rapid cut in policy rates, sent the 10-year yield above 4.30% on 13 February (the highest since the end of November) after higher-than-expected consumer price index figures were published. Excluding food and energy, inflation stabilised at 3.9% year-on-year in January. Retail sales data released on 15 February cast doubt on the strength of the US economy, particularly consumption. Retail sales fell by 0.8% in January (far more than expected) and the November and December figures were revised down, too. These first doubts on growth helped the 10-year T-note yield stabilise at around 4.30% until the end of the month. It ended February at 4.25%, a monthly rise of 34bp. The 30-year bond yield rose by 21bp to 4.38% while the 2-year yield rose from 4.21% at the end of January to 4.62% (+ 41bp) as expectations of a cut in key rates ebbed. It had moved a few days earlier above 4.70%, its highest since 12 December, the day before the FOMC meeting. This flattening of the yield curve goes against the steepening positions taken by many investors in the last months of 2023. The outperformance of the long end of the curve leads us to think that some investors chose to adjust their positions, further accentuating the flattening. In addition, auctions in recent weeks were absorbed at normal levels for long maturities and with slightly more difficulty for intermediate (five and 7-year) maturities

- 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, Europe Equity, EM Equity, Japan Equity and High yield on profit taking.

- The broad positioning is as below:

- US equities (Neutral). There is increasing caution on US growth and corporate earnings, weakening US consumer data and softening labor market. Valuations are sufficiently demanding to hold us back from turning positive.

  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 29/02/2024

ISO Code	Currency name	1 USD =
AUD	AUSTRALIAN DOLLAR	1.535744
EUR	EURO	0.924086
GBP	BRITISH POUND	0.790545
SGD	SINGAPORE DOLLAR	1.344600

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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