Institutional report for professional investors

BNP PARIBAS A FUND Dynamic Multi-Asset - Commentary

MONTHLY REPORT

30/04/2024 - 31/05/2024

BNP PARIBAS
ASSET MANAGEMENT

The sustainable investor for a changing world

Executive Summary | p 3
General Information
Risk Disclaimer

Performance & ex-post Risk | p 7
Portfolio Commentary

Appendix | p 9
Exchange Rates
Glossary
Legal Disclaimer

BNPP AM is the source for all data in this document as at end 31/05/2024, unless otherwise specified.

Executive Summary

General Information

Key Figures (USD)

Fund AUM	22,667,547.10
Share class AUM	5,928,056.04
Number of holdings	18
Outstanding shares	58,128.00
NAV date	31/05/2024
NAV per share	101.98
12M NAV max (21/05/2024)	103.65
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

Executive Summary

Risk Disclaimer

Risk Disclaimer

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.

Executive Summary p 3

General Information
Risk Disclaimer

Performance & ex-post Risk p 7

Portfolio Commentary

Appendix p 9

Exchange Rates
Glossary
Legal Disclaimer

BNPP AM is the source for all data in this document as at end 31/05/2024, unless otherwise specified.

Performance & ex-post Risk

Portfolio Commentary

Market Review

- After quickly recovering from the ground they lost in April and setting new records, global equities ended May on two consecutive weeks of declines. By 20 May, global and emerging equities had gained more than 5.0% compared to the end of April, but they then slipped to end the month up by 3.8% (MSCI AC World index in US dollars) and 0.3% (MSCI Emerging Markets index in US dollars).

- The main factor behind these movements was the question of when the Fed would make its first policy rate cut, which remained the focus of investors' concerns. At first, there was some sense of relief when it became clear that a long-lasting acceleration in inflation could essentially be ruled out. Each economic indicator that pointed to a slowdown in activity in the US was welcomed by equity markets ('Bad news is good news'). On 23 May, the unexpected rebound in the services PMI triggered some concern. The reasoning was simple: With inflation still sticky, particularly in services, any re-acceleration in growth would increase the risk of overheating, delaying the Fed's first rate cut or even justifying renewed hiking. Such nervousness showed itself in the rebound in implied volatility at the end of the month, when the VIX index returned to its lowest since November 2019.

- Within developed equities, US markets significantly outperformed in May and the main indices set new records on 21 May. The S&P 500 gained 4.8% over the month and the Nasdaq Composite, 6.9%. In the eurozone, previous highs were surpassed in mid-May by several indices. The EuroSTOXX 50 finished the month up by 1.3% and, with a rise of 10.2% year to date, has matched (in local currency terms) the S & P 500 (+10.6%). In May, the MSCI EMU in euros rose by 1.7% and is up 9.0% year to date. In Tokyo, index movements during the month were both smaller than in other markets and contrarian, with Japanese equities falling until mid-month before recovering to finally gain 1.1% (Topix index). The prospect of a hike in the Bank of Japan's policy rate and rising bond yields supported the financials sector, which outperformed significantly.

- The fall in US long-term bond yields in the first half of the month helped the Growth style to outperform the Value style: +5.0% for the MSCI AC World Growth index and +2.6% for the MSCI AC World Value index. Globally, the tech sector continued to lead the way, particularly semiconductors. The only drop in May was in the energy sector, which was hit by lower crude oil prices.

- The change in the yield on the US 10-year T-note (4.68% at the end of April) saw two distinct phases, ending with a monthly fall of 18bp. In the first half of the month, yields eased significantly, with the 10-year yield falling below 4.35% on 15 May.

- The yield on the German 10-year Bund (2.58% at the end of April) moved between 2.40% and 2.60% for much of the month before suddenly hitting 2.69% on 28 May and ending at 2.66%, a rise of 8bp compared to the end of April.

- Despite the renewed nervousness that penalised risky assets in the second half of May, spreads between credit indices and government bond yields continued to narrow (euro indices) or moved sideways, reflecting the ongoing appetite for credit.

- This appetite was reflected in the primary market in euros. Despite the many public holidays that could have reduced the amount issued, May saw issuance exceeding EUR 88 billion, well above the five-year average for May (EUR 64 billion). These issues were very well placed and New Issue Premiums (NPIs) are well below 10bp.

- For over three months, the US high yield (HY) credit spread moved between 250bp and 310bp and ended the month at roughly 310bp. The credit market thus managed to record a positive total return on all segments. US credit outperformed, particularly investment grade, which benefited from the rise in US government bonds (+1.5%).

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 EM equity.

Fund Performances

By Sector

- Top sector performance contributor: North America Equity, Europe Equity and Real Estate Global
- Top sector performance detractor: there is no negative detractor tor for the month.

By Fund

- Top performance contributor: AB SICAV I - American Growth P SHRS, Principal Global Investors Fun SHRS and ABN AMRO Funds - Aristotle US SHRS
  Top performance detractor: there is no negative detractor tor for the month.

Outlook & Positioning

- The extent of the underperformance in emerging markets was mainly due to the fall in Chinese equities at the end of the month. As of 30 May, the MSCI Emerging Markets index gained 1.2% from the end of April compared to 3.2% for the MSCI AC World index. The abrupt (and short-lived) decline in large US tech stocks on 30 May

Performance & ex-post Risk

Portfolio Commentary

weighed on all markets and Asian indices did not benefit from the rebound in the S&P 500 and Nasdaq the next day. The renewed positive sentiment towards Chinese equities after several supportive announcements by the authorities ran out of steam over the month: The MSCI China index, which had risen by 11% by 21 May compared to the end of April, ended the month up by only 3.6%. The MSCI AC Asia ex Japan index rose by 1.9% in May, hurt by the decline in the South Korean market. The fall in US long-term bond yields in the first half of the month helped the Growth style (+5.0% for the MSCI AC World Growth index) to outperform the Value style (+2.6% for the MSCI AC World Value index). Globally, the tech sector continued to lead the way, particularly semiconductors. The only drop in May was in the energy sector, which was hit by lower crude oil prices (-7.1% for Brent; -6.0% for WTI).

- 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 not been moving since July. The press release included a new comment that 'in recent months, there has been a lack of progress toward the Committee's 2% inflation objective', conceding the trend in inflation since the beginning of the year. Against this background, Chair Jerome Powell said the Fed was ready to keep the federal funds target rate unchanged 'for as long as appropriate but also clarified that he did not believe the 'next rate move will be a hike'. The Minutes released a few weeks after the meeting were considered a little less dovish. Participants noted that recent data had not increased their confidence in progress toward 2% and, accordingly, had suggested that the disinflation process would likely take longer than previously thought.

- The change in the yield on the US 10-year T-note (4.68% at the end of April) saw two distinct phases, ending with a monthly fall of 18bp. In the first half of the month, yields eased significantly, with the 10-year yield falling below 4.35% on 15 May. This level had not been seen since 10 April on the release of the March consumer price index that worried investors and caused a significant rise in yields due to fading expectations of a cut in key interest rates. The opposite mechanisms came into play from the beginning of the month when Fed Chair Jerome Powell reaffirmed the bias for US monetary policy easing. Presenting the conclusions of the FOMC meeting on 1 May, Powell said he did not think the 'next rate move will be a hike'. Several indicators published in the following days seemed to reflect the (long-expected) slowdown in activity, supporting the bond market. Yields hit a low for the month after the release of the consumer price index in April, which reassured investors, but Fed officials' comments (including Jerome Powell's) then became a little less dovish. The slowdown in inflation was good news, but a sustained sequence of such figures would be needed before a cut in policy rates could be considered with greater confidence. Many FOMC members considered it more prudent to retain the current restrictive monetary policy for longer and some even said that a hike could not be entirely ruled out. At the same time, economic indicators (Flash estimate of the PMI surveys and consumer confidence in May) seemed to call into question the assumption of a slowdown in activity, leading to a further postponement of expectations. These two factors led yields to rise, accentuated at the end of the month by a poorly absorbed auction of 5-year T-notes.

- 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 EM Equity 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 (Neutral). 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

Executive Summary p 3

General Information

Risk Disclaimer

Performance & ex-post Risk p 7

Portfolio Commentary

Appendix p 9

Exchange Rates

Glossary

Legal Disclaimer

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Appendix

Exchange Rates

Exchange Rates

as of 31/05/2024

ISO Code	Currency name	1 USD =
AUD	AUSTRALIAN DOLLAR	1.503646
EUR	EURO	0.921150
GBP	BRITISH POUND	0.785423
SGD	SINGAPORE DOLLAR	1.351700

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.

R^2
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

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