Institutional report for professional investors

BNP PARIBAS A FUND Dynamic Multi-Asset - Commentary

MONTHLY REPORT

30/09/2024 - 31/10/2024

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 31/10/2024, unless otherwise specified.

Executive Summary

General Information

Key Figures (USD)

Fund AUM	17,775,511.40
Share class AUM	4,137,478.52
Number of holdings	14
Outstanding shares	39,190.11
NAV date	31/10/2024
NAV per share	105.57
12M NAV max (30/09/2024)	108.31
12M NAV min (02/11/2023)	90.17

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

31/10/2024 | 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

EQUITIES

- Global equities moved trendless for three weeks in October. After hitting an all-time high on 14 October (0.5% above the previous high), the MSCI AC World index (in US dollar terms) returned on 22 October to its end-of-September level. In the last week, rising long-term bond yields eventually weighed on global equities resulting in a monthly drop of 2.3%, the first drop since April. The MSCI Emerging Markets Index in US dollar terms fell more sharply, by 4.4%. This adverse move started when the Chinese markets re opened after a public holiday. Investors' enthusiasm in September after Beijing's support measures announcements gave way to some scepticism despite further supportive decisions. While the People's Bank of China (PBoC) did not disappoint with key rate cuts, there is still little clarity on how fiscal support measures will be put in place. Pending the conclusions of the Standing Committee of the National People's Congress (NPCSC) in early November, the MSCI China index lost 6.0% in October. The MSCI AC Asia ex Japan index lost 4.5%.

- The run-up to the 5 November elections in the US has maintained some nervousness. Opinion polls point to a very tight result, so investors have been reluctant to set up positions dependent on the outcome of the poll while remaining attentive to the (sometimes contradictory) signals in favour of a particular scenario, all of which has fuelled volatility. Economic indicators have been in line with a 'soft landing' scenario for the US economy and even with a 'no landing' scenario. At the same time, expectations of very rapid cuts in key rates from the US Federal Reserve have ebbed. These two factors, and arguably questions about debt sustainability in the coming years, led to upward pressure on long-term bond yields, which led to a fall in equity markets at the end of the month. Despite the big rise in bond yields, the Growth style (-2.0% for the MSCI AC World Growth index) and Value style (-2.6% for the MSCI AC Value index) performed quite similarly.

- We need to look for the explanation in companies' quarterly results and earnings outlooks. Overall, earnings growth in the technology sector has remained solid (although the picture is not uniform within very large caps) and financials have surprised to the upside. At the global level, these two sectors managed to post a slight increase, outperforming the rest of the market. The difficulties of the consumer discretionary sector in Europe may reflect the weakness of consumption in China, according to profit warnings issued by several large luxury names that are very exposed to this market.

- In this context, eurozone equities underperformed (-3.5% for the EURO STOXX 50; -3.4% for the MSCI EMU index in euros). In the US, the S&P 500 lost -1.0% and the Nasdaq Composite index, -0.5%. Among the major developed equity markets, only Japan managed to rise (+3.1% for the Nikkei 225 index) despite a bumpy run due to political uncertainties linked to the appointment of Shigeru Ishiba as Prime minister and the results of the general elections on 27 October, which saw the ruling coalition losing its majority. The weaker yen supported equities.

BOND MARKETS

- The yield on the US 10-year T-note (3.78% at the end of September) rose from the beginning of the month, moving quickly above 4.00% after the release of the strong employment report. It stabilised for a few days before rising again to end at 4.38%, a monthly rise of 50bp. Several factors explain this: Economic indicators reflecting the strength of US growth, adjustments in expectations about the Fed's monetary policy and the approaching elections on 5 November. From an economic point of view, surprises (the gap between actual data and market economists' forecasts) have steadily improved from negative in September to their highest level since mid-April at end-October. Meanwhile, the Atlanta Fed's running estimate of third quarter GDP based on available data quickly surpassed 3.0% in October (from 2.5% at the end of September), a figure that was close to the official figure (2.8% annualised for the Bureau of Economic Analysis' advance estimate). On the monetary policy front, Fed officials tried to dampen the expectations of a rapid easing of policy rates that had been reinforced by the 50bp cut in key rates on 18 September. Various statements as well as hard and soft data convinced investors. Against this background, the 2-year T-note yield rose by 53bp to end at 4.17%, its highest since the end of July.

- Finally, the other highlight of the month was the rise in the term premium on the 10-year yield, which may mean that investors are beginning to worry about the federal budget deficit and debt in the coming years. The term premium is defined as additional yield to compensate investors for the uncertainty of holding long-term Treasury notes and bonds instead of just rolling over a series of short-dated T-bills. This is not an observed, but an estimated variable and its calculation may differ according to the method used. However, the term premium reached its highest since October 2023, when the 10-year T-note yield exceeded 5.00%. It subsequently ebbed, validating a posteriori the analysis of the Treasury Secretary who justified the rise in yields by the dynamism of the US economy. It should also be noted that policy rate cuts have been widely anticipated by futures markets and that any element that could call into question the speed of the cuts can cause significant market movements given investor nervousness as the elections approach. The US Treasury market lost 2.5% in October, a significant correction after its 4.9% rise in Q3.

- Movements in eurozone bond markets again followed those of US Treasuries in October. However, the yield on the 10-year German Bund (2.12% at the end of September) managed to outperform its US counterpart due to poor growth prospects in the eurozone and expectations of further cuts in key ECB rates after the 25bp cut on 17 October. The monthly rise was thus 27bp on the German 10-year yield (at 2.39%, its highest since the end of July) and 21bp on the 2-year yield (at 2.28%, the highest since early September).

- The major markets in the eurozone slightly outperformed the German market, which tends to prove that the deterioration is not due to intrinsic eurozone factors. In particular, the spread between France and Germany narrowed (from 80bp at the end of September to 74bp at the end of October) while the rating agency Fitch revised France's sovereign outlook to negative while affirming the rating (AA-) on 11 November. The agency

Performance & ex-post Risk
Portfolio Commentary

justified this decision by 'this year's projected fiscal slippage [that] places France in a worse fiscal starting position'. On 25 October, Moody's also lowered its outlook on France from 'stable' to 'negative' as the 'fiscal or financial strength, including the debt profile, have materially decreased'. For Italy, the Fitch agency maintained its rating (BBB) and upgraded its outlook from 'stable' to 'positive'. The S&P rating agency confirmed its BBB rating and stable outlook for Italy, highlighting progress on the public deficit but pointing out the very high level of Italian debt. These announcements brought the 10-year BTP/Bund spread to 117bp, the lowest since November 2021. It ended the month at 129bp (vs. 133bp at the end of September), with the Italian 10-year yield at 3.65%.

- Due to the fall in sovereign markets (-2.5% in the US; -1.0% in the eurozone), total returns in the credit market were mostly negative, with an underperformance of indices in US dollars. However, credit appetite has not diminished, regardless of the segment, despite some disappointments on the quarterly earnings of some issuers. In the US dollar High Yield market (US HY), the credit spread briefly fell below 280bp, its lowest since early 2022 despite a very active primary market at the beginning of the month. The behaviour of Euro HY credit was comparable, with a spread ending the month at levels not seen since the second half of January 2022, allowing the segment to post a slightly positive monthly total return. On Investment Grade (IG) credit, it took until the end of October to see issuance volumes increasing. Spread compression was significant in this segment, especially in the Euro market.

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 slashed equity across regions. We also reduced exposure to High yield, emerging market debt hard currency and convertibles.

Fund Performances

By Sector

Top sector performance contributor: Cash & Cash Equivalent

Top sector performance detractor: Europe Equity, Emerging Equity and Real Estate Global

By Fund

Top performance contributor: there is no positive contributor for the month.
Top performance detractor: Comgest Growth PLC - Europe SHRS, Principal Global Investors Fun SHRS and Vontobel Fund - mtx Sustainabl SHRS

Outlook & Positioning

- There was no US Federal Reserve (Fed) monetary policy meeting in October. The federal funds rate was kept in the 4.75%-5.00% range. After a disappointing jobs report in August, the September report (released on 4 October) was very strong. Net job creations were above expectations (+254 000 vs. the Bloomberg consensus expectation of +150 000) despite combined upward revisions of 72 000 in July and August. The unemployment rate, which was expected to remain stable at 4.2%, fell to 4.1%. However, there are other signs that the labour market is returning to more normal levels. The Jobs Openings and Labour Turnover Survey (JOLTS) showed a decline in job openings and in the quit rate, reflecting weaker household confidence in finding a job easily. The layoff rate remains low at 1.2%, but still at its highest in about a year and a half. The Institute for Supply Management (ISM) purchasing managers' index was unfavourable on employment. The index was below 50 in September in the manufacturing and services sectors, although the ISM services headline index recovered to its highest level since early 2023.

- We expect the market will continue to be volatile as we are entering the US election, and so our portfolio remain largely unchanged. We remain cautious towards taking on more risk, and the portfolio continue to be well diversified.

- The broad positioning is as below:

- US equities (Positive). We are still 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 (Neutral). 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. However, earnings are no longer outpacing other equity regions and global appetite for Japanese Equity is also waning. So we turned neutral.

Performance & ex-post Risk

Portfolio Commentary

- Emerging Market equities (Neutral). From a macroeconomic standpoint South Korea is a typical beneficiary of a potential upturn in the global manufacturing cycle; and this especially knowing the low levels of the inventories. From a microeconomic point of view, 2 companies dominate in Korea: Samsung and Hynix. Those are set to benefit from Nvidia revenue growth. Hynix and TSMC are known beneficiaries from Nvidia supply chain.

- 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.

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

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Appendix
Exchange Rates

Exchange Rates
as of 31/10/2024

ISO Code	Currency name	1 USD =
AUD	AUSTRALIAN DOLLAR	1.526718
EUR	EURO	0.921107
GBP	BRITISH POUND	0.777817
SGD	SINGAPORE DOLLAR	1.322900

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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