



HIGH YIELD EUROPE DEFENSIVE

OCTOBER 2023 NEWSLETTER

theam QUANT FUNDS

MARKETING COMMUNICATION | FOR PROFESSIONAL CLIENTS ONLY

This document has been prepared for discussion purposes only and does not constitute an offer or a solicitation to engage in any trading strategy or the purchase or sales of any financial instrument.

INVESTMENT OBJECTIVE

The objective of the THEAM Quant High Yield Europe Defensive is to provide capital growth:

- By being dynamically exposed to a long position on European high yield credit;
- Implementing a defensive swaption overlay strategy, which aims at mitigating risk by reducing volatility and drawdown in the fund.

STRATEGY

The fund's investment strategy consists of two key components:

- **Solvency II-friendly synthetic exposure to European high yield credit with 5-year maturity** – transparent synthetic exposure to pure high-yield European credit which benefits from a regular roll mechanism that captures the positive carry (on average), and contributes to keeping the effective default rate low. It relies on complete pricing transparency by using external fixings.
- **Dynamic defensive swaption-based overlay** – it aims to mitigate the negative impact (i.e. provide downside protection*) coming from severe credit spread widening, meets Solvency II requirements for hedging, and is designed to remain relatively cost-efficient over time.

The Protection Overlay fully satisfies the criteria for a risk mitigation technique set in Art. 209 of the Delegated Regulation 2015/35 to qualify as a Solvency II Hedging Program.

**BNP Paribas Asset Management does not provide any formal capital guarantee of the fund. No information given, or term used herein, shall be interpreted to provide such a guarantee.*

Drawdown reduction is not guaranteed, as other factors (such as cost of overlay) may influence fund performance.

These internal guidelines are for indicative purposes only and are subject to change; Prospectus and KID are prevailing.

PERFORMANCE

As of 31/10/2023

THEAM Quant – High Yield Europe Defensive ¹

1 month performance	-0.92%
YTD performance	9.30%
Overall annualised return ²	-1.20%
Annualised Volatility	6.06%
Maximum Drawdown	-20.74%

¹ - Refers to LU1685647320, THEAM Quant – High Yield Europe Defensive – Share C EUR ACC <TQHYECE LX Equity>.

² - Global annualized return since 4th May 2019 (Share class launch date).

Source: Bloomberg. Past performance is not an indicator of future performance.

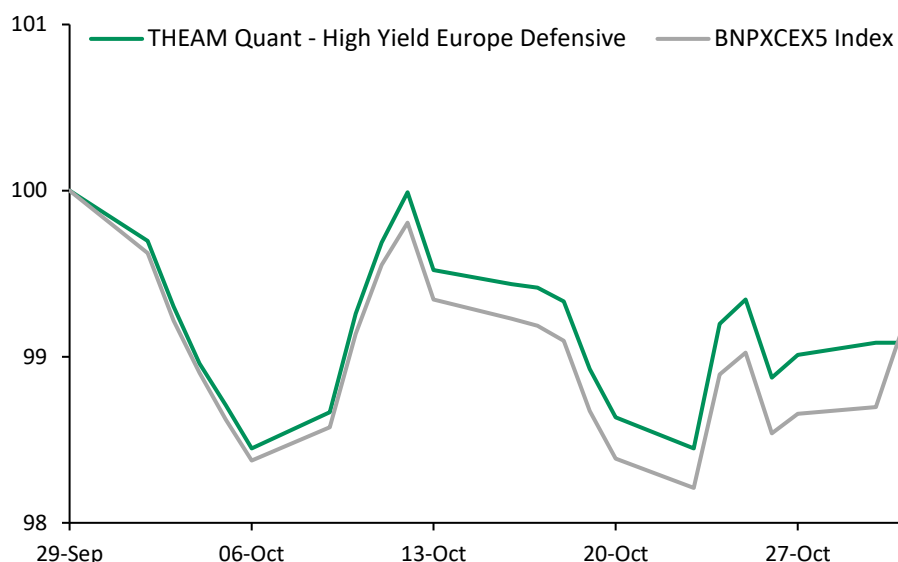
Follow the icon to go to the fund page on the THEAM Quant website



PERFORMANCE BREAKDOWN

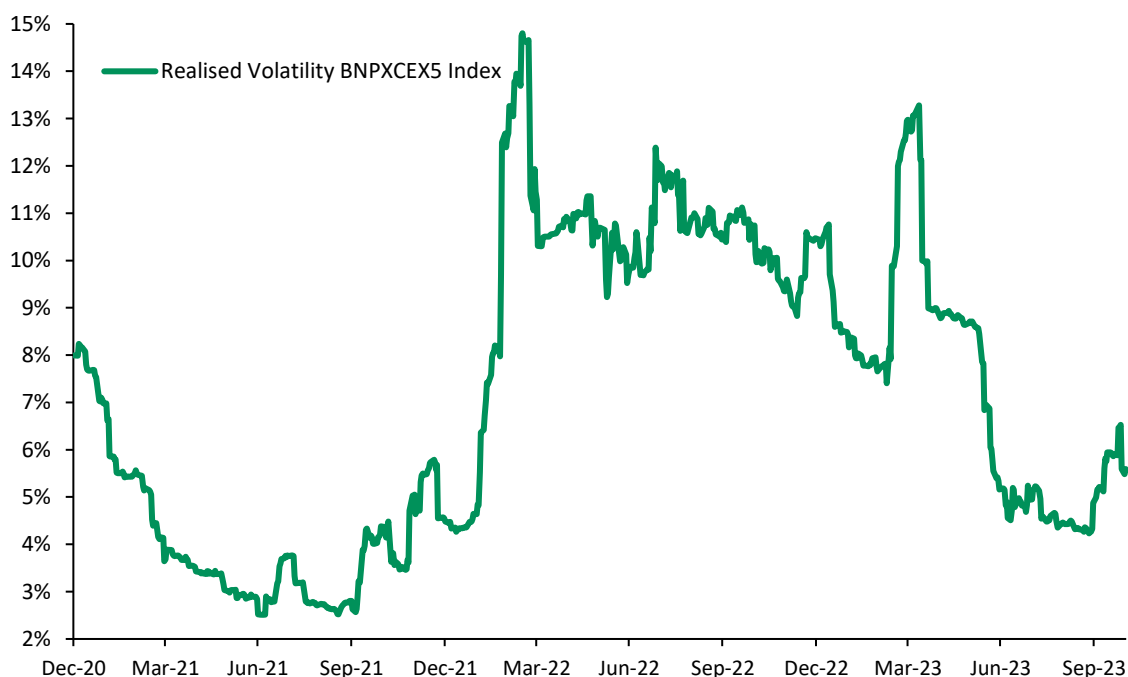
The High Yield Defensive Europe fund posted a negative performance in October (-0.92%).

- High Yield Europe Defensive 2 recorded a negative performance (-0.66%) in October 2023 as the European high yield credit leg fell by: -0.53%, while the swaption overlay had a negative performance over the month: -0.13%.
- The long payer swaptions of strike 150% net contribution was -0.16%. The sale of payer swaptions of strike 110% has contributed positively +0.03%.
- At the end of October (based on the last five business days), the sale of swaptions of strike 110% generates +1.9% p.a. while the purchase of swaptions of strike 150% costs -3.3% p.a., leading to a net contribution of -1.4% p.a. for the overlay.



Source: Bloomberg, BNP Paribas as of 31/10/2023. Past performance is not an indicator of future performance.

REALISED VOLATILITY



Source: Bloomberg, BNP Paribas as of 31/10/2023. Past performance is not an indicator of future performance

INVESTMENT PROCESS IN A NUTSHELL

LONG EUROPE CROSSOVER CREDIT

MARKIT ITRAXX CROSSOVER 5Y CDS: ON-THE-RUN SERIES

Equivalent to a sale of a protection under a credit default swap on a basket of 75 liquid Crossover European names

- Rolled every 6 months with deteriorating entities being removed
- ⇒ **Capture the Yield: credit spread + carry from the CDS curve**
- ⇒ **Keep the maturity in the 5-year region**
- ⇒ **Keep the effective default rate low**



DEFENSIVE SWAPTION OVERLAY

POSITION CREATED DAILY: LONG PAYER RATIO

Instrument: 3-month payer swaptions

Underlying: On-the-run series of Markit iTraxx Crossover 5Y

- Buy payer 150% strike on 150% notional
- Sell payer 110% strike on 50% notional
- ⇒ **Limit drawdowns & pay a lower premium**
- ⇒ **Reduce costs**

HIGH YIELD EUROPE DEFENSIVE STRATEGY

- ✓ A synthetic investment into credit that benefits from downside protection in case of a severe stress.
- ✗ Given that swaptions are struck out of the money and executed daily there remains some residual risk such as isolated defaults or gradual (but limited) widening in credit spreads.

CONTACTS

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FUND CHARACTERISTICS AND RISKS

	THEAM Quant – High Yield Europe Defensive	
Management company	BNP Paribas Asset Management France	
Type of fund	Sub-fund of the SICAV THEAM QUANT, UCITS Compliant	
Recommended investment horizon	4 years	
Capital protected	No	
SFDR Article	6	
SRI Risk Classification (scale of 1-7) ³	3	3
Share ⁴	I (EUR) ACC	C (EUR) ACC
Launch date	05 June 2020	04 March 2019
Bloomberg Code	TQHYIEA LX Equity	TQHYECE LX Equity
ISIN Code	LU1685648211	LU1685647320
Subscription/Exit fees ⁵	0.00% max / 0.00% max	3.00% max / 0.00% max
On-going charges	0.40%	1.20%
International registration	France/Italy/Germany/Spain/Belgium	France/Germany/Italy/Spain/UK

³ - The Summary Risk Indicator is determined on a scale from 1 to 7 (7 being the highest risk level), the higher the risk, the longer the recommended investment horizon.

⁴ - For all shares available, please refer to the prospectus [here](#).

⁵ - The entry and exit charges shown are maximum figures. In some cases you might pay less. You can find this out from your financial adviser. Not applicable on the secondary market.

WHAT ARE THE RISKS?

The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

Liquidity Risk: This risk arises from the difficulty of selling an asset at a fair market price and at a desired time due to lack of buyers.

Counterparty Risk: linked to the default of a counterparty on over-the-counter markets.

Risk related to the use of forward financial instruments: In order to achieve its investment objective, the UCITS makes use of forward financial instruments traded over-the-counter that allow it to replicate the performance of the strategy. These instruments may involve a series of risks that could lead to adjustments or even the early termination of the instrument, which may affect the net asset value of the UCITS.

For the full list of risks, please refer to the prospectus.

DISCLAIMER

"THEAM Quant" is the generic name given to a broad range of systematic strategies designed by BNP Paribas Global Markets and mostly implemented in Funds managed by BNP Paribas Asset Management

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