INVESTMENT REPORT – 31 DECEMBER 2023

# BNP PARIBAS GREEN BOND TRUST

## OBJECTIVE

The BNP Paribas Green Bond Trust seeks to increase the value of its assets over the medium term by investing primarily in global green bonds issued by issuers supporting climate-related and environmental projects. The Trust invests its assets into BNP Paribas Funds Green Bond ("Underlying Fund"), a sub-fund of the Luxembourg-domiciled BNP Paribas Funds SICAV ("BNP Paribas Funds").

## DISTINGUISHING FEATURES

- Exposure to an active green bond strategy created to meet the demand for an innovative way to invest responsibly and sustainably
- Green bonds are a mechanism to support activities with low greenhouse gas emissions and to support low-carbon and climate-resilient developments
- Rigorous green bond assessment methodology. BNP Paribas Asset Management only invests in Green Bonds that it believes are authentic in financing a shift towards a sustainable economy
- Experienced global fixed income team supported and informed by dedicated Sustainability Centre professionals

## TOP 10 HOLDINGS (UNDERLYING FUND)

| SECURITY | WEIGHT |
|---|---|
| BNPP MOIS ISR I C | 4.3% |
| KFW 0.88 PCT 15-SEP-2026 | 2.5% |
| CANADA (GOVERNMENT OF) 2.25 PCT | 2.4% |
| FRANCE (REPUBLIC OF) 0.50 PCT 25-JUN-2044 | 2.3% |
| SPAIN (KINGDOM OF) 1.00 PCT 30-JUL-2042 | 2.3% |
| EUROPEAN UNION 0.40 PCT 04-FEB-2037 | 2.1% |
| EUROPEAN INVESTMENT BANK 2.38 PCT | 2.0% |
| CHILE (REPUBLIC OF) 3.50 PCT 25-JAN-2050 | 1.9% |
| GERMANY (FEDERAL REPUBLIC OF) 2.30 PCT | 1.8% |
| BELGIUM KINGDOM OF (GOVERNMENT) 1.25 | 1.6% |
| | **23.2%** |

Source: BNP Paribas Asset Management. Percentages may not add up due to rounding.

## TRUST PERFORMANCE

| | TRUST GROSS | TRUST NET | BENCHMARK |
|---|---|---|---|
| 1 Month (%) | 3.60 | 3.53 | 3.65 |
| 3 Months (%) | 5.66 | 5.51 | 6.85 |
| 6 Months (%) | 3.85 | 3.53 | 5.17 |
| 1 Year (%) | 6.49 | 5.83 | 7.64 |
| 2 Year (%) | -5.53 | -6.15 | -6.16 |
| Since Inception (%)<br>3 September 2021 | -5.09 | -5.72 | -5.89 |

Source: BNP Paribas. Benchmark: Bloomberg MSCI Global Green Bond Index (AUD Hedged). Gross returns are calculated before fees and costs of 0.65% (inclusive of RITC and GST). Net returns are calculated using exit prices net of management fees and costs and assuming reinvestment of distributions. No allowance is made for tax when calculating these figures. Gross returns are provided for wholesale investors only, retail investors should refer to net returns. Results greater than one year are annualised



The value of investments can go up or down. Past performance is not indicative of future returns. There is no guarantee any investment objectives will be achieved.

BNP PARIBAS ASSET MANAGEMENT

The sustainable investor for a changing world

### OPPORTUNITY:

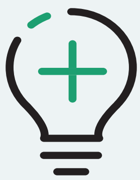
**An appropriate financial vehicle to support low-carbon and climate-resilient development**

Climate change has brought about new demand for innovative ways to invest responsibly and sustainably. The green bond market continues to expand and diversify. Green bonds can be a suitable way to favour activities with low greenhouse gas emissions and support low-carbon and climate-resilient development.

## RISK ANALYSIS (UNDERLYING FUND) (3 YEARS, MONTHLY)

| | Fund |
|---|---|
| Volatility | 7.43 |
| Ex-post Tracking Error | 0.58 |
| Information Ratio | -0.14 |
| Sharpe Ratio | -0.92 |
| Modified Duration (31.12.2023) | 6.62 |
| Yield to Maturity (31.12.2023) | 3.27 |
| Average coupon | 2.05 |

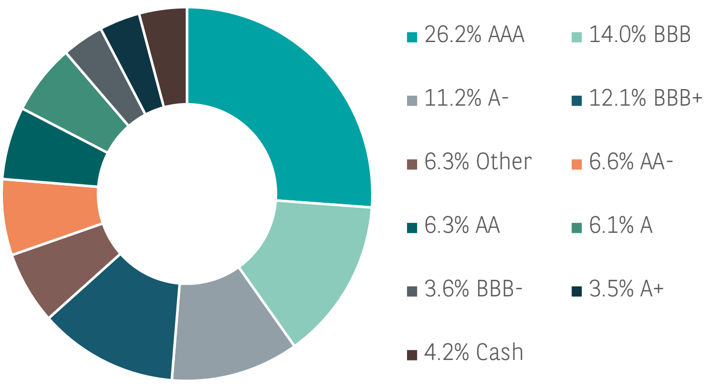
Source: BNP Paribas Asset Management



**Read our latest article on Green Bonds here:**
[EU aims to make Green Bonds greener*]

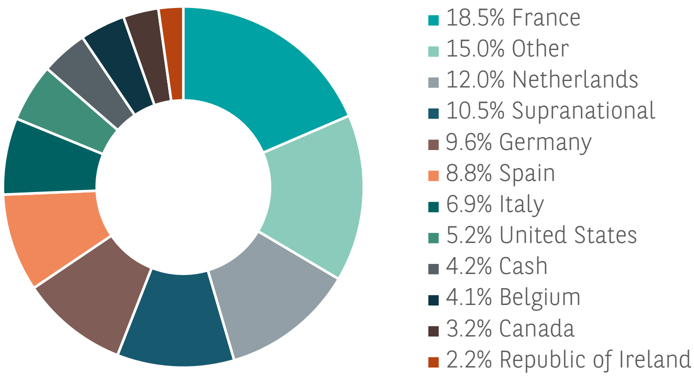
* For Wholesale Investors Only

## RATING ALLOCATION (UNDERLYING FUND)




Source: BNP Paribas Asset Management
Percentages may not add up to 100% due to rounding.

## COUNTRY ALLOCATION (UNDERLYING FUND)




Source: BNP Paribas Asset Management
Percentages may not add up to 100% due to rounding.

**ESG global score 79.09**

# SUSTAINABLE INDICATORS (UNDERLYING FUND)

### ESG CONTRIBUTION

| | Environmental contrib. | Social contrib. | Governance contrib. |
|---|---|---|---|
| Portfolio | 23.46 | 3.58 | 2.05 |

### CARBON FOOTPRINT

| | T/Co2 per M€ per year |
|---|---|
| Portfolio | 1.82 |

### PORTFOLIO COVERAGE

| | Coverage rate |
|---|---|
| ESG coverage | 100.00% |
| Carbon footprint coverage | 98.34% |

**Total ESG score**

BNPP AM's internal ESG scoring methodology determines an issuer's ESG score by evaluating performance vs. scoring peers on a narrow set of key ESG issues related to the environment (e.g. climate change), social issues (e.g. human resources management) and governance (e.g. independence and competence of directors). BNPP AM uses numerous research inputs and data sources (e.g. Sustainalytic, ISS & Trucost) to determine issuers' ESG scores. If the issuer's commitments and practices on a pillar of assessment (E,S or G) is better than scoring peers, it will receive a positive 'contribution' for this pillar. Each issuer is assigned a final score from 1 to 99 which is the result of 50 as a reference plus the sum of the contributions from each of the three pillars.

**ESG contribution**

The ESG contributions are determined by BNP Paribas Asset Management's ESG analysts on the basis of detailed criteria to systematically evaluate companies' commitments and practices in the areas of environmental, social and governance. Each of the above contributions at the portfolio level, is the weighted average of the contributions of the individual portfolio holdings.Environmental Contribution (E) takes into account, among other things, climate change, environmental risk management, and the use of natural resources. Social Contribution (S) takes into account, among other things, human capital management, the quality of social dialogue, and the respect of diversity. Governance Contribution (G) takes into account, among other things, the transparency on executive compensation, the fight against corruption, and gender equality.

**Carbon footprint**

The portfolio or benchmark carbon footprint is the sum of companies' carbon emissions divided by companies' Enterprise Value multiplied by the weight of companies in the portfolio or the benchmark. Carbon emissions are the sum of Scope 1 emissions (direct emission from the company's facilities) & Scope 2 emissions (indirect emissions linked to the company's energy consumption). Carbon data provider is Trucost. The footprint is expressed in tons of CO2 equivalent per year and per million euros invested. Enterprise Value (EV) is the measure of a company's total value. It is calculated by adding the market capitalization and the financial debt of a company.

**Portfolio Coverage**

The coverage represents, within a portfolio or benchmark or ESG benchmark, the percentage of securities that have an ESG score or carbon footprint within those that are eligible to have an ESG score or carbon footprint using BNPP AM's internal methodology. Non-eligible securities include, but are not limited to cash.

## RISKS OF MANAGED INVESTMENT SCHEMES

All investments carry risk.

Some of the general risks of managed investment schemes include:

Active Management Risk, Counterparty Credit Risk, Credit Risk, Currency Risk, Derivatives Risk, Hedging Risk, Interest Rate Risk, Investment Specific Risk, Legal Risk, Liquidity Risk, Market Risk, Operational Risk, Pandemic and other unforeseen Event Risk, Securities Lending Risk, Security Selection Risk, Swing Pricing Risk, Timing Risk, Trust Risk, Underlying Fund Risk.

For further details of the risks associated with the Trust, a Product Disclosure Statement (PDS) for the Trust is available at www.bnpparibas-am.com/en-au

## COMMENTARY (UNDERLYING FUND)

### MARKET ENVIRONMENT

- USA: The Federal Open Market Committee (FOMC) meeting on 12/13 December concluded with a status quo on key interest rates. The federal funds target rate thus remains unchanged in the 5.25% -5.50% range to which it was raised at the end of the July meeting after a cumulative 525bp rise since March 2022. The decision to hold rates steady came as no surprise. US Federal Reserve (Fed)'s official communication, however, proved more dovish than expected. Fed Chair Powell pointed out that monetary policy is now 'well into restrictive territory'. On the other hand, projections of the level of the federal funds rate that FOMC members deem 'appropriate' revealed that policy easing may start in the first half of next year.
- In line with expectations, the drop in inflation confirmed the slower pace of price increases in November. Core inflation, as measured by the core PCE (personal consumption expenditures ex food and energy) price index, was 3.2% year on-year, its lowest since March 2021. The consumer price indices published earlier in the month had sent the same message, which understandably led the FOMC to revise down its expectations for core PCE inflation at the end of 2023 (to 3.2% from 3.7% forecast in September), at the end of 2024 (2.4%) and at the end of 2025 (2.2%). At the same time, the FOMC expects the unemployment rate to rise moderately (to 4.1% from 2024 to 2026), which would mean it remaining close to its equilibrium level of 4.0%. The Fed's central scenario appears to be a soft landing, whereby a return of inflation to target would not require a sharp slowdown in activity. The economic indicators released in December validate this to some extent.
- Eurozone: At the Governing Council meeting on 14 December, the European Central Bank (ECB) left its key rates unchanged. The September hike thus appears to be the last one in the current cycle, which started in July 2022 and took the deposit rate to 4.00%, the refi rate to 4.50% and the marginal lending facility rate to 4.75%. The post-meeting communication was seen as rather hawkish, unlike some statements that had caught investors' attention earlier in December. The Governing Council reiterated that it is 'too early to declare victory in the fight against inflation' as 'domestic price pressures remain elevated, primarily owing to strong growth in unit labour costs'. Data from Eurostat in mid-December revealed a 5.3% year-on-year increase in hourly labour costs in the eurozone in the third quarter (after 4.5% in Q2).
- Weak growth, especially in Germany, seems, for investors, to be a good argument for easing monetary policy in the coming months. The eurozone flash PMI signaled a deepening decline in activity in December. The average PMI Composite index level in the fourth quarter stands at 47 (47.5 in the preceding quarter), which corresponds to a recession (after GDP contracted by -0.1% in the third quarter). Against this backdrop of slowing inflation and depressed growth, expectations of rapid rate cuts in 2024 strengthened. At the end of December, the levels on the Overnight Indexed Swap (OIS) showed three cuts of 25bp in the first half of the year.

### GOVERNMENT YIELDS

- The yield on the US 10-year T-note maintained the clear downward trend that had started in November, as investors continued to react to the slowdown in inflation and the Fed's less hawkish comments. In this context, the employment report, which was above expectations and still solid, was seen as confirmation of the rebalancing of the labour market and thus a soft landing for the US economy. This report led to a brief rise in long-term bond yields when it was released in early December. Other than that, the yield on the 10-year T-note fell continuously, from 4.33% at the end of November to below 3.80% on 27 December, its lowest since 19 July. Compared to the highest close of the year at
- 4.99% on 19 October, the fall in the US 10-year yield reached 120bp. In narrow volumes,

and with little investor response to the end-of-year economic data, it ended the year at 3.88%, a monthly fall of 45bp that sent it back to its end of 2022 level. Expectations of rapid cuts in key interest rates in 2024 could explain such a result. The FOMC meeting on 12/13 December was decisive: Jerome Powell's comments confirmed that the policy rate hike cycle was over, and forecasts showed that most FOMC members consider that significantly lower rates would be appropriate in 2024 (4.625% for the median level from 5.375% at the end of 2023), which was not the case after the September meeting when the median level of these projections for the end of 2024 was 5.125%.

- In the Eurozone, the 10-year Bund yield (2.45% at the end of November) gradually eased to 1.90% on 27 December, its lowest in more than a year, with bond market activity very light in the last week of the year. It ended December at 2.02% (-42bp in one month and -55bp compared to the end of 2022). The 2-year Bund yield eased by 42bp in one month to end at 2.40%, its lowest since the mini crisis triggered by the bankruptcies of several US regional banks in March.
- Peripheral eurozone government bond markets did not suffer from the announcement of the reduction in reinvestments of Pandemic Emergency Purchase Programme (PEPP) assets in the second half of 2024, which accompanied the ECB's status quo on key rates. The announcement removed one element of uncertainty since it was made clear that these reinvestments will continue until the end of 2024. The Italian 10-year yield fell by 53bp to 3.70% and Spanish and Portuguese yields fell by 48bp to 2.99% and 2.66%, respectively.

## CURRENCY MARKETS

- After rising at the beginning of the month, the dollar lost 2.1% in December (DXY index calculated against a basket of the euro, the yen, the pound sterling, the Canadian dollar, the Swedish krona, and the Swiss franc). Expectations of Fed rate cuts increased after the conclusions of the Fed's monetary policy meeting considered dovish.
- The EUR/USD exchange rate (1.0888 at the end of November), which had begun to fall in early December due to worsening economic data in the eurozone and expectations of a rapid cut in ECB rates, recovered significantly from 14 December. It briefly surpassed 1.11, its highest since July. It ended the month at 1.1039, up by 1.4% from the end of November.

## UNDERLYING FUND PERFORMANCE

- The fund had a yearly performance of +7.38%. We managed to outperform the benchmark by 0.30% in 2023. We have been able to achieve this strong performance over the year thanks to the carry effect and the significant rally that occurred during the fourth quarter of 2023.
- In December, the portfolio returned +364 bps gross of fees compared to that of the benchmark, which delivered a return of +367 bps. During the month, the portfolio underperformed its benchmark by -3 bps.
- Relative to the benchmark, Financials returned +1.2 bps and Industrials returned +13.58 bps and Utilities returned -16 bps.

## KEY INVESTMENT DECISIONS

- Context Summary: At the Governing Council meeting on 14 December, the European Central Bank (ECB) left its key rates unchanged. The September hike thus appears to be the last one in the current cycle, which started in July 2022 and took the deposit rate to 4.00%, the refi rate to 4.50% and the marginal lending facility rate to 4.75%. The post-meeting communication was seen as rather hawkish, unlike some statements that had caught investors' attention earlier in December.
- At the end of October, the portfolio exposure to modified duration was 6.62 years. The portfolio is slightly underexposed in terms of modified duration compared to its benchmark (6.77 years) with -0.15 bps.
- As for the "credit "risk of the portfolio (Spread Duration), it is 6.34 years.
- The portfolio is exposed to Green bonds with 95.4%.
- 97% of the portfolio is invested in Investment grade while only 2.55 % of the portfolio is invested in High Yield Bonds.
- The portfolio offers a yield of 3.32 %.

Source: BNP Paribas Asset Management

## HAVE QUESTIONS?

All enquiries welcome. Please contact your local sales representative.

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riaa Responsible Investment Association Australasia
Responsible Investment Leader **2023**

## CHARACTERISTICS

| | |
|---|---|
| APIR Code | ETL0521AU |
| Benchmark | Bloomberg MSCI Global Green Bond Index (AUD Hedged) |
| Trust Size (AUD) | $6.5m |
| Performance Inception | 3 September 2021 |
| Distribution Frequency | Usually quarterly, as at end of March, June, September and December |
| Minimum Investment | AUD 25,000 |
| Delegated Investment Manager | BNP PARIBAS ASSET MANAGEMENT Asia Limited |
| Management Costs (includes GST after allowing for RITCs) | 0.65% p.a of NAV of Trust - (0.54% capped) |
| Performance Fee | Nil |

## DISCLOSURE

Equity Trustees Limited ("Equity Trustees") ABN 46 004 031 298 | AFSL 240975 is the Responsible Entity for the BNP Paribas Green Bond Trust ("the Trust") (ARSN 651 112 659). Equity Trustees is a subsidiary of EQT Holdings Limited ABN 22 607 797 615, a publicly listed company on the Australian Securities Exchange (ASX: EQT). BNP PARIBAS ASSET MANAGEMENT Australia Limited ("BNPP AMAU") ABN 78 008 576 449 | AFSL 223418 is the investment manager of the Trust. This publication has been prepared by BNPP AMAU to provide you with general information only. Unless otherwise stated, all data is as of the report production date. In preparing this information, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither BNPP AMAU, Equity Trustees nor any of their related parties, their employees or directors, provide any warranty of accuracy or reliability in relation to such information or accept any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement (PDS) before making a decision about whether to invest in this product. The PDS can be obtained from www.bnpparibas-am.com/en-au or from your adviser.

BNP Paribas Green Bond Trust's Target Market Determination available here www.bnpparibas-am.com/en-au. A Target Market Determination is a document which describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

New Zealand financial services licensing and registration requirements do not apply to BNPP AMAU as it does not provide financial services to retail clients in New Zealand and does not have a place of business in New Zealand.

For more information regarding the Trust please call the Client Service Team on 1800 267 726 (Australia) or +612 9619 6041 or visit our website www.bnpparibas-am.com/en-au