

# GURU® ESG EQUITY STRATEGIES

MARKETING COMMUNICATION  
FOR PROFESSIONAL CLIENTS ONLY

BNP PARIBAS GLOBAL MARKETS  
MAY 2024

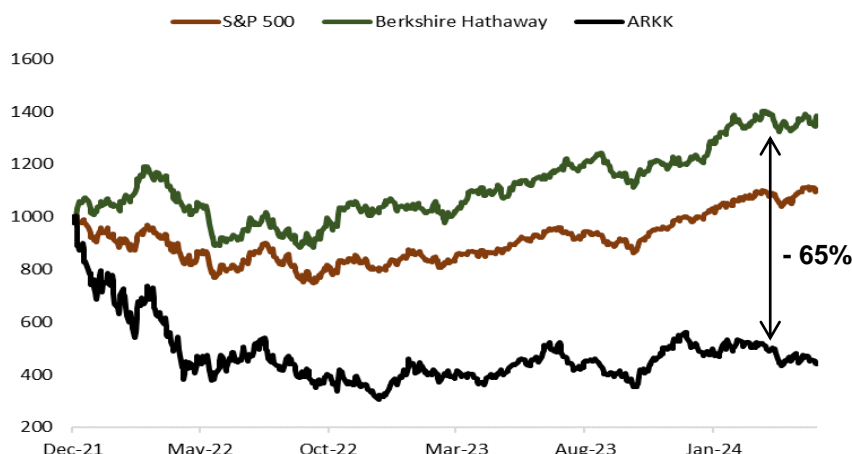


**BNP PARIBAS**

The bank  
for a changing  
world

## » LESSONS FROM TOP “GURUS” INVESTORS

A great way to master investing is to pick the brains of the financial gurus who have climbed to the top of the class in the financial world. Investment Gurus such as **Warren Buffett** or **Peter Lynch** have delivered high consistent performance over a long term period, thanks to investment principles based on economic common sense. These principles have proven to be more relevant than ever over the Year to date period:



“

It’s far better to buy a wonderful company at a fair price than a fair company at a wonderful price.”

**WARREN BUFFETT**

Inspired by their success, BNP Paribas has **launched in 2008** a high conviction investment methodology directly linked to the Gurus’ approaches: **the GURU® methodology**.

The aim is to select companies that answer favorably to three decisive questions in order to maximize the return on investment:

Is the company profitable ?

Does it have a promising future ?

Is it correctly valued in the market ?

**GURU®** strategies posted an **average outperformance above 8% in the past year** thanks to their approach based on company fundamentals rather than market capitalization. The first GURU fund was launched more than 15 years ago (GURU Europe) and posted a performance of **+321%<sup>1</sup>** since then.

Source: <sup>1</sup> BNP Paribas as of May 2024.

## » THE NEW GURU® ESG METHODOLOGY

Inspired by the great success of the BNP Paribas GURU® range since more than 15 years now, BNP Paribas has decided to develop a **strongly enhanced** version of the GURU® methodology initially launched in 2008. The effective and rigorous investment approach remains the same: select companies based on **3 pillars (profitability, prospects and valuation)** while enhancing different aspects:



### SUSTAINABLE APPROACH - SFDR 8

Sustainable investing is of utmost importance as it can both mitigate investment risk and support companies taking active roles on key issues such as climate change and social justice.



### TOP NOTCH SELECTION CRITERIA

Improved data quality and coverage leads to better decision-making. These enhanced indicators aim to increase the predictability of the model to pick winning stocks.



### RISK MANAGEMENT

Careful biases management is critical to successful investing. Allocation effects are controlled to lower potential impact from systemic macro events difficult to catch through a bottom-up approach.

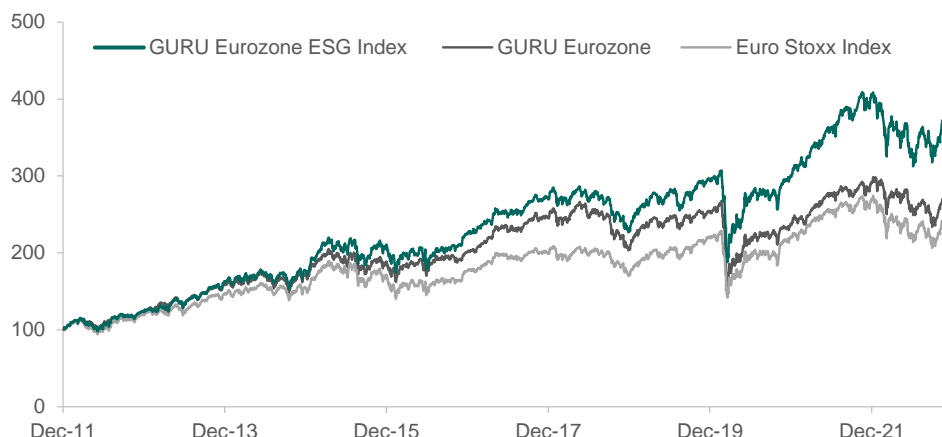


### GREATER REACTIVITY

In order to rapidly respond to changes in the macro-economic environment, a stock can be withdrawn from the strategy within one month while it has to remain 1 year within the selection before.



## » HOW DOES IT IMPACT THE PERFORMANCE ? EUROZONE EXAMPLE

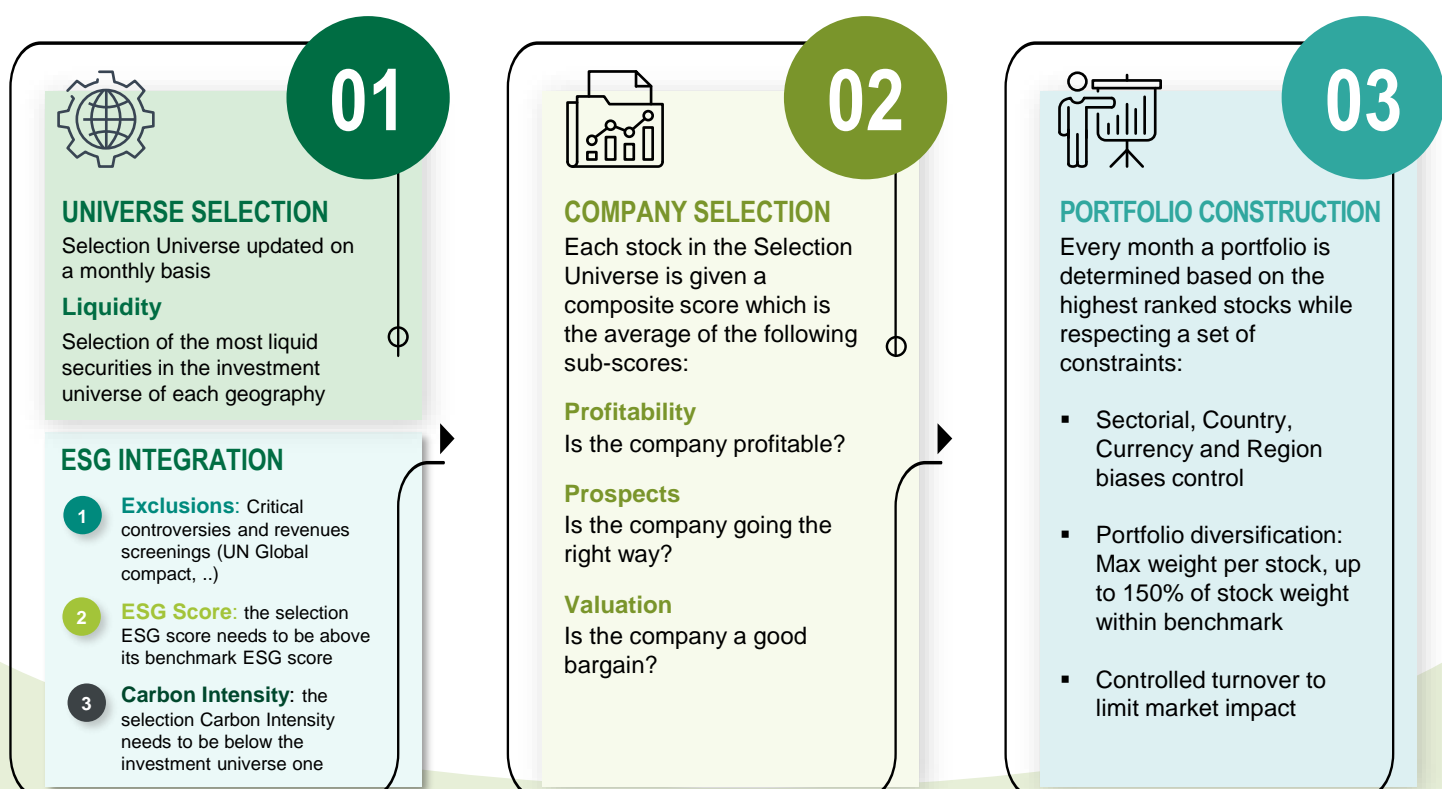


The **new GURU® ESG methodology** generated strong over performance over the last decade thanks to its stringent selection methodology based on stocks fundamentals and ESG characteristics. This result is similar within all the considered geographies.

Dec 11 – Nov 22	GURU® ESG Eurozone <sup>1</sup>	GURU® Eurozone	Euro Stoxx (SXXT Index)
Annualised Return	12.89%	9.64%	8.58%
Annualised Volatility	18.67%	17.63%	18.53%
Ratio	0.7	0.55	0.46
Tracking error	4%	6%	-
Information Ratio	1.07	0.2	-
Max Drawdown	-38.8%	-42.03%	-37.89%
Active Share	75%	84%	-

Source: BNP Paribas as of 31 May 2024. <sup>1</sup>BNP Paribas GURU Eurozone ESG NTR EUR Index live since 22 November 2022. Performance simulations from 30 December 2011 to 21 November 2022. Simulated or historical past performance is not an indicator of future performance.

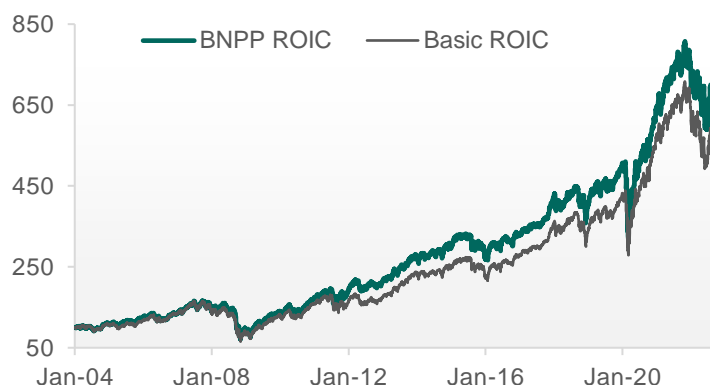
## » SELECTION METHODOLOGY



## » CRITERIA EXAMPLE 1: ROIC

The **Return on Invested Capital (ROIC)** evaluates the return earned on the total capital (both attributable to equity investors and creditors) invested in the business. In our strategy, a basic ROIC could have been used, however BNP Paribas expertise allowed to compute internally the ROIC to achieve both higher update frequency and accuracy.

To illustrate the impact, the graph displays a sample portfolio that is long the best 10% companies of the US universe in term of ROIC. The portfolio using **BNP Paribas computed ROIC** shows a stronger over performance during the observed period.



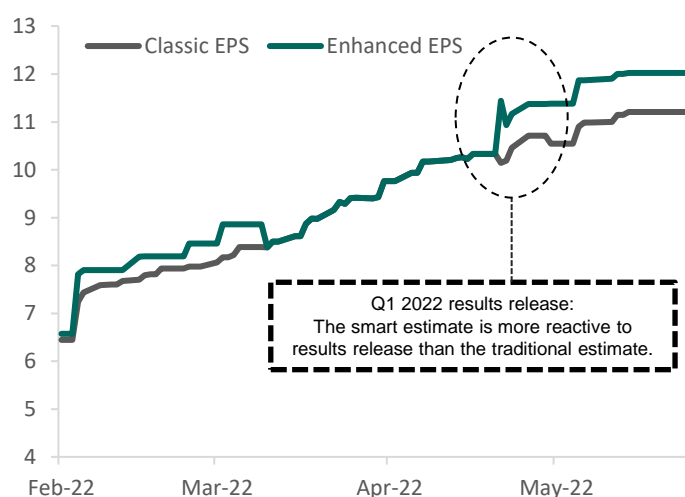
Source: BNP Paribas as of November 2022. For illustrative purpose only.

## » CRITERIA EXAMPLE 2: Smart Earnings Estimates to Price

The Earnings to Price ratio refers to the forecast earnings estimates per share divided by the current market price. Essentially, for two companies with the same earning per share, the company with the lower price will be scored higher than its counterpart with a higher price.

The **GURU ESG Methodology** considers **Smart estimates of the Earnings per share**, taking into account the **relevance of the analyst** that is contributing to the estimate and the **novelty of the information**.

Indeed, majority of investors use the simple average of analyst estimates, placing an equal weight on each analyst estimate regardless of whether the estimate was issued two or 200 days ago. The chart illustrates that **Smart estimates** can be more reactive than traditional consensus for a Eurozone blue-ship company.



Source: BNP Paribas as of November 2022. For illustrative purpose only.

## » CHARACTERISTICS

Strategy Name	Live date	Geography	Currency	Fund Name	Bloomberg Ticker (NTR)
GURU Europe ESG	22 November 2022	Europe	EUR	<a href="#">THEAM Quant - Equity Europe GURU®</a>	BNPIGEU
GURU Eurozone ESG	22 November 2022	Eurozone	EUR	<a href="#">THEAM Quant - Equity Eurozone GURU®</a>	BNPIGEZ
GURU US ESG	22 November 2022	US	USD	<a href="#">THEAM Quant - Equity US GURU®</a>	BNPIGUS
GURU All Country ESG	22 November 2022	World AC	USD	<a href="#">THEAM Quant - Equity World GURU®</a>	BNPIGAC

# WHAT ARE THE RISKS<sup>1</sup>?

## Financial Risks

- The following list of risk factors associated with the funds is not exhaustive. The risk factors that should be considered in connection with any investment include (but are not limited to) the following:

### Risk linked to equity markets

- 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.

### Currency exchange risk

- The value of an investment may be affected by fluctuations in the currency of the country in which the investment was made, or exchange control regulations.

### Liquidity risk

- There is a risk that investments made in funds may become illiquid due to an over-restricted market (often reflected by a very broad bid-ask spread or by substantial price movements), or if their "rating" declines or their economic situation deteriorates.

### Counterparty risk

- This risk relates to the quality of the counterparty with whom the funds do business or enter into various transactions. This risk reflects the counterparty's ability to honor its commitments (payment, delivery, repayment, etc.)

## IMPLEMENTATION

- The Strategy is implemented either according to a Synthetic Replication Policy, through the conclusion of OTC Derivatives or in cash by investing directly in the basket of equities that make up the Strategy Index. If the Strategy is implemented according to the Synthetic Replication Policy, the fund will invest its assets in Transferable Securities or Money Market Instruments (the Financing Assets) and exchange the performance of up to 100% of the Financing Assets through OTC Derivatives to gain exposure to the Strategy Index. The Underlying Assets mainly consist of the Strategy Index and UCITS Instruments.
- The GURU® funds currently implement the strategy through a synthetic exposure to the GURU® indices in order to achieve their investment objective, using total return swaps contracts. The model is implemented through a synthetic replication by the CIB Strategies Portfolio Management team of BNPP AM. Fund managers monitor the performance swap exposition against the AUM including subscriptions/redemptions movements, on a daily basis.
- As part of the synthetic exposure implementation, the funds hold a basket of stocks (the "Financing Assets"), performance of which is swapped against the performance of the GURU strategy as mentioned above. Such Financing Assets incorporate as well ESG criteria leading to either (i) a Best-in-universe approach consisting of excluding securities which do not meet minimum ESG exclusion requirements leading to a selectivity approach excluding at least 20% of the investment universe or to (ii) an ESG score improvement approach consisting of an ESG Score for the Financing Assets portfolio better than the one of its investment universe. In order to meet either one of those ESG approaches, the ESG criteria implemented by Portfolio Management team to the Financing Assets consist especially in not investing in stocks not fulfilling norm-based screens, such as the UN Nations Global Compact principles and OECD Guidelines for Multinational Enterprises as well as sectorial criteria. The sectors concerned include, but are not limited to, palm oil, wood pulp, mining activities, nuclear, coal-fired power generation, tobacco, controversial weapons, unconventional oil and gas and asbestos. In respect especially of the tobacco, as of the date of this due diligence questionnaire, the most stringent applied criteria consist of excluding companies that derive more than 5% of their revenues from the production or wholesale trading of tobacco products or e-cigarettes.
- In case a security held in the Financing Assets basket becomes ineligible to such aforementioned minimum ESG criteria, the Portfolio Management team works on a best effort basis to remove it as early as possible.

<sup>1</sup> Refer to the prospectus for a comprehensive list of the risks associated with the THEAM Quant GURU funds.

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