Monthly Investment Brief

“Twist again”

ODDO BHF ASSET MANAGEMENT

April 2021

In recent weeks, bond investors have suffered slight capital losses and are wondering about a more significant rise in long-term rates which would have a more significant impact on portfolios. This question is particularly legitimate since a sustainable rise in rates would not only affect the equity markets but also the real estate market.

How big is the global real estate market?

The $90 trillion global stock market is significant. However, this figure remains more than three times smaller than the $300 trillion global real estate market. Real estate valuations may seem stretched relative to other assets and relative to historical data. But, clearly, the continued high valuations of global real estate have been driven (at least in part) by the continued low level of bond yields. If higher bond yields were to lead to even a 10% decline in property values, this would represent a $30 trillion drop in global wealth. Such a deflationary impulse, equal to one third of global GDP, would totally wipe out the temporary inflationary shock we are about to experience.

So should we be worried about an inflationary shock, when the consequences of a rate hike on the world economy would lead us fairly quickly into a much greater deflationary spiral?

The true risk is real estate

Over the past decade, global property rents have broadly followed nominal GDP, as expected. But property prices have far outpaced the rate of increase in rents. In fact, the price paid for these rents has jumped by 35%. This multiple expansion of real estate, which has added $80 trillion to global wealth - equivalent to the world's GDP - is mainly due to falling bond yields.
In the global real estate market, the residential segment accounts for 80% of the value. Commercial real estate (offices included) accounts for just over 10% and agricultural and forestry real estate makes up the rest. The real estate boom has mainly been the housing boom. Since most housing is owner-occupied (except for Germany), the boom in property prices has increased the wealth of the ordinary global citizen far more than the rise in share prices.

Moreover, the housing boom of the 2010s was unprecedented in its regional penetration and scope, simultaneously encompassing cities, suburbs and rural areas in North America, Europe and Asia. Even Germany and Japan participated, making it the largest real estate boom in economic history. The key question is where the turning point lies.

What 30-year interest rate in the United States or China could lead to a reversal of the trend?

Hard to say, but Freddie Mac recently reported that the average rate for a 30-year fixed rate mortgage has risen to 3.02%. After several consecutive weeks of increases, this is the first time that the rate on America's most popular mortgage has exceeded 3% since July.

The FED cannot remain insensitive to this phenomenon of long-term rate tension that could derail the recovery. Under the code name "operation twist", it has the means to intervene on the yield curve by buying long-maturity bonds rather than short ones. The central question now remains to know when the FED will decide to intervene, either through rhetoric or action. At the speed at which rates are rising, this moment may not be far away...

01 CURRENT CONVICTIONS

Scenarios

Our 6-month view

Central scenario: Global growth recovering from uniquely sharp recession with strong monetary / fiscal policy support

65%

Europe & US

- COVID-19 outbreak has resulted in most severe recession. Recovery has started in Q2 and 2020 growth figures could be better than feared. Consumer confidence to increase on promising COVID-19 vaccine news.
- Unprecedented intervention from both monetary and fiscal policy will also mitigate the coronavirus shock

Assets to overweight

- Equities (focus on high quality cyclicals)
- Credit

Assets to underweight

- Sovereigns

Strategy

- Flexibility
- Hedging (options, gold,…)

Alternative scenario: Interest rate risk fueled by surprise jump in the US inflation and growing US budget deficit

20%

- Wage acceleration
- Surging oil prices fueled by an escalation of political tensions in Middle East
- Reduction of growth potential

Assets to overweight

- Inflation-hedged bonds
- Alternative strategies
- Cash

Assets to underweight

- Equities
- Core Sovereigns
- High Yield credit

Alternative scenario: Increase in protectionism from geopolitics and pandemic extension

15%

- Global recession with a risk of financial equilibrium
- Geopolitical risks materializing
- China: risks of economic rebalancing

Assets to overweight

- Money Market CHF & JPY
- Volatility
- Core government bonds

Assets to underweight

- Equities
- High Yield credit

Source: ODDO BHF AM, comments as of 04/07/2021

Our current convictions for each asset class

Equities	Large cap Eurozone	0
	Mid cap Eurozone	0
	Small cap Eurozone	1
	UK	0
	USA	0
	Emerging markets	0
	Japan	0
Convertible bonds	Europe	0
	USA	0
Currencies	USD / €	-1
	YEN / €	0
	GBP / €	0
Commodities	Gold	-1
	Crude oil	1

Change vs the previous month

Source: ODDO BHF AM, comments as of 04/07/2021

Our current convictions for each asset class

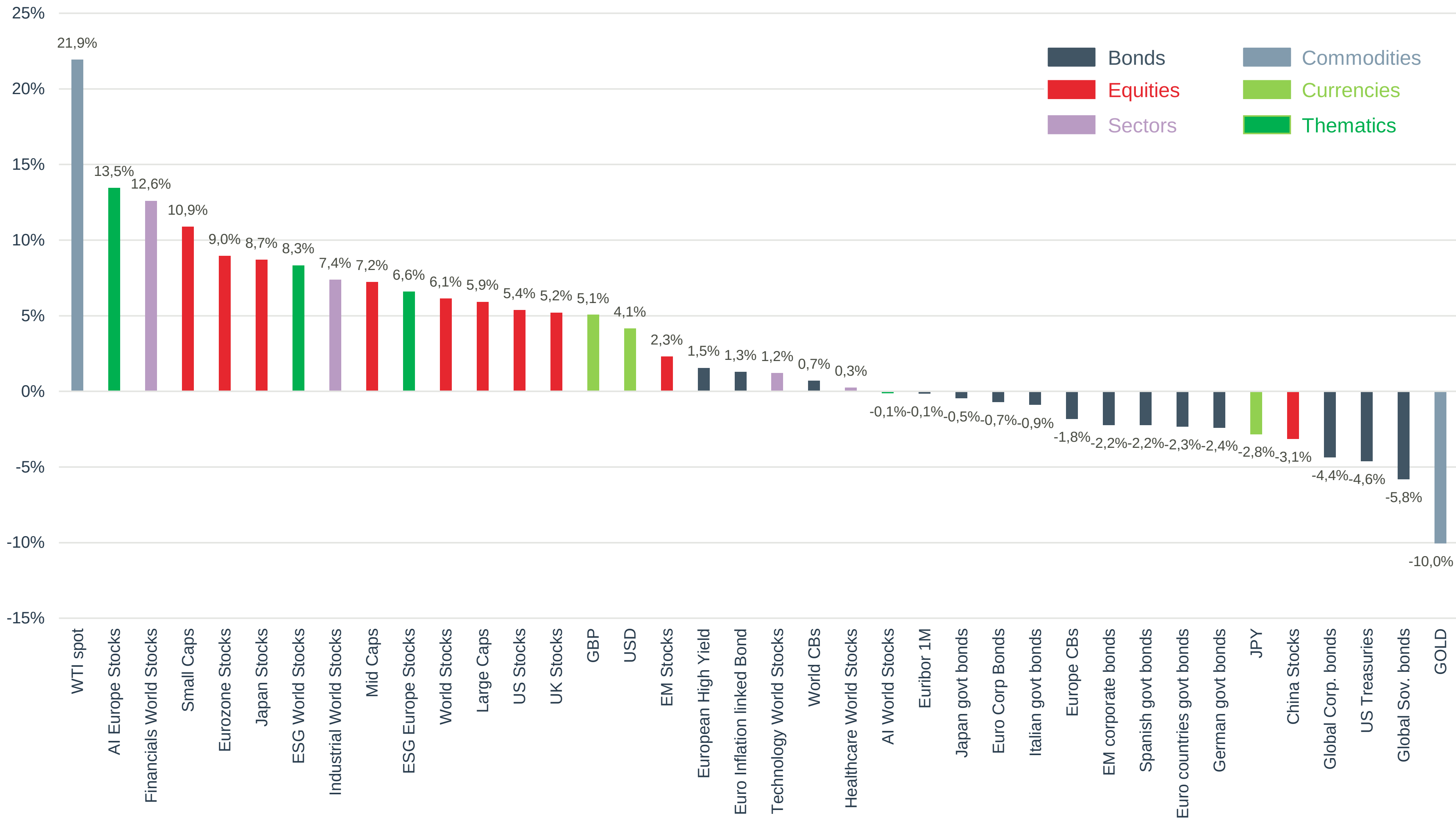
Asset class	Segment	Conviction
Government bonds	Core Europe	-1
	Peripheral Europe	0
	USA	-2
Corporate bonds	Investment grade Europe	0
	Credit short duration	1
	High Yield Europe	1
	High Yield USA	0
	Emerging markets	-1
Money market	Developed markets	1
Alternative assets	Private Equity	1
	Private Debt	1
	Real Estate	0
	Hedge Fund	1

Change vs the previous month

Source: ODDO BHF AM, comments as of 04/07/2021

02 MACROECONOMIC AND MARKET ANALYSIS

Year-to-date performances of asset classes



Past performances are not a reliable indicator of future performances and are not constant over time.

Sources: Bloomberg and BoA ML as of 03/31/2021; performances expressed in local currencies

Historical performances of asset classes

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 YTD
WTI spot	-53,5%	77,9%	15,1%	8,2%	-7,1%	7,2%	-45,9%	-30,5%	45,0%	12,5%	-24,8%	34,5%	-20,5%	21,9%
Eurozone equities	-44,9%	27,3%	2,4%	-14,9%	19,3%	23,4%	4,3%	9,8%	4,4%	12,5%	-12,7%	25,5%	-1,0%	9,0%
US equities	-37,6%	26,3%	14,8%	1,4%	15,3%	31,8%	12,7%	0,7%	10,9%	21,2%	-5,0%	30,9%	20,7%	5,4%
EM equities	-53,3%	78,5%	18,9%	-18,4%	18,2%	-2,6%	-2,2%	-14,9%	11,2%	37,3%	-14,6%	18,4%	18,3%	2,3%
European High Yield	-34,2%	74,9%	14,3%	-2,5%	27,2%	10,1%	5,5%	0,8%	9,1%	6,7%	-3,6%	11,3%	2,8%	1,5%
Euro Libor 1m	4,0%	0,7%	0,4%	0,9%	0,2%	0,1%	0,1%	-0,1%	-0,3%	-0,4%	-0,4%	-0,4%	-0,5%	-0,1%
EM corporate bonds	-12,4%	30,9%	9,2%	5,6%	13,2%	-1,3%	3,9%	-1,0%	5,5%	7,3%	-1,4%	11,6%	6,5%	-2,2%
Eurozone Gvt bonds	9,1%	4,4%	1,1%	3,3%	11,2%	2,3%	13,2%	1,6%	3,3%	0,1%	1,0%	6,8%	4,9%	-2,3%
German Gvt bonds	12,2%	2,0%	6,2%	9,7%	4,5%	-2,3%	10,4%	0,3%	4,1%	-1,4%	2,4%	3,1%	3,0%	-2,4%
US Gvt bonds	14,0%	-3,7%	5,9%	9,8%	2,2%	-3,3%	6,0%	0,8%	1,1%	2,4%	0,8%	7,0%	8,2%	-4,6%
EM sovereign bonds	-10,9%	28,2%	12,0%	8,5%	18,5%	-6,6%	5,5%	1,2%	10,2%	9,3%	-4,6%	14,4%	5,9%	-4,7%
Gold	5,8%	24,4%	29,6%	10,1%	7,1%	-28,3%	-1,4%	-10,4%	8,1%	13,5%	-1,6%	18,3%	25,1%	-10,0%
Spreads (%age points)	**67,5%**	**82,2%**	**29,1%**	**28,5%**	**34,3%**	**60,1%**	**59,0%**	**40,3%**	**45,4%**	**38,7%**	**27,3%**	**34,9%**	**45,7%**	**31,9%**

Past performances are not a reliable indicator of future performances and are not constant over time.

Colour scale

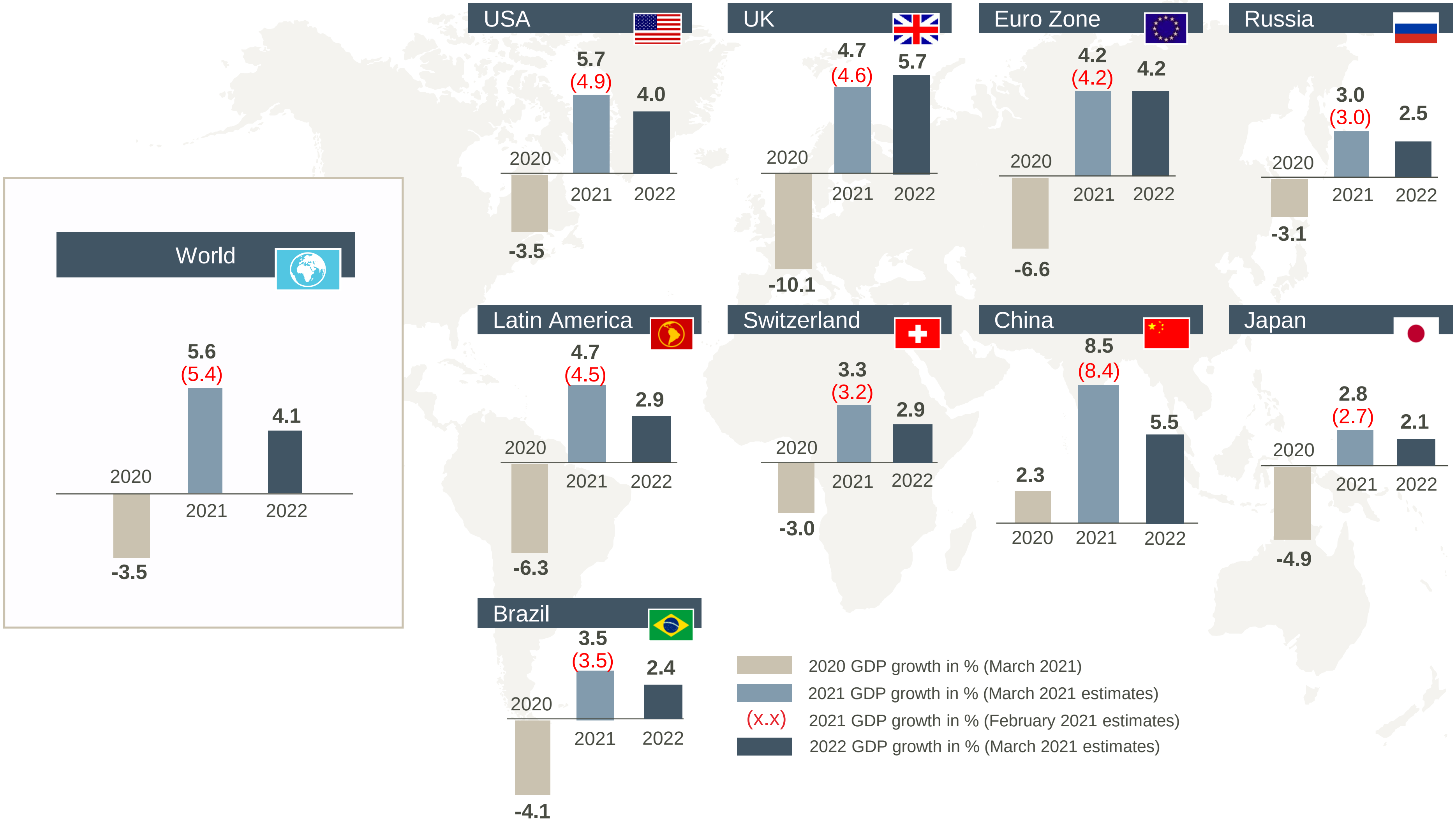
Best performance — Worst performance

1	2	3	4	5	6	7	8	9	10	11	12

Sources: Bloomberg and BoA ML as of 03/31/2021 ; performances expressed in local currencies

Global GDP* growth forecast

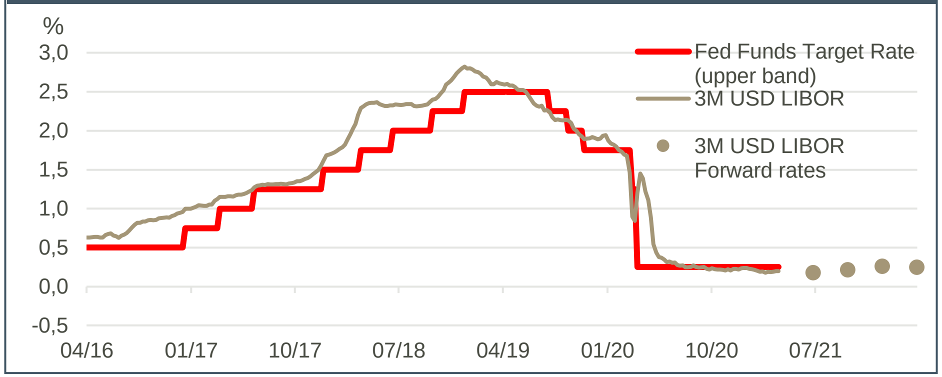
An uneven recovery



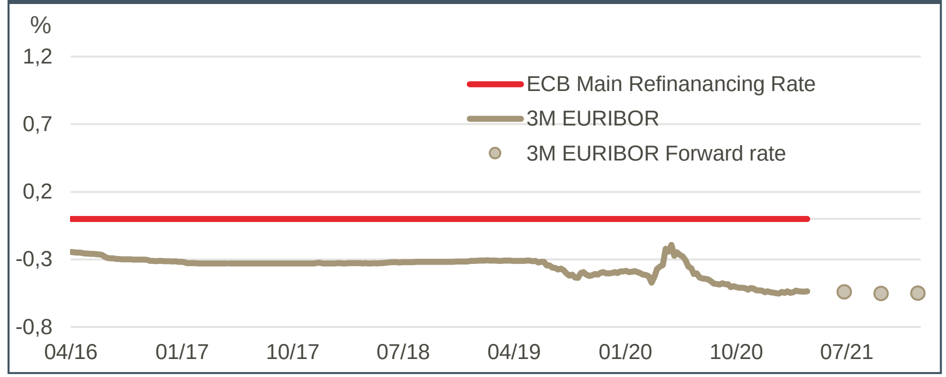
*GDP: Gross Domestic Product | Sources: ODDO BHF AM SAS, Bloomberg economist consensus forecast | Data as of 03/31/2021

Monetary policy & inflation expectations

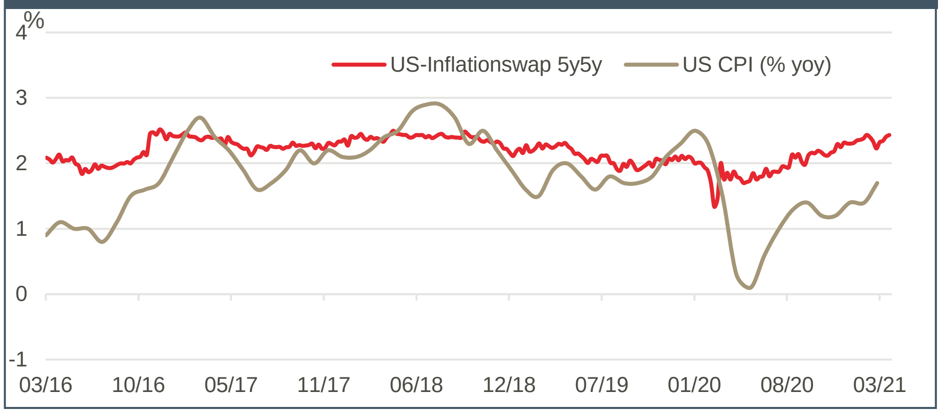
Fed Funds Target Rate, 3M USD LIBOR & 3M USD LIBOR FRAs



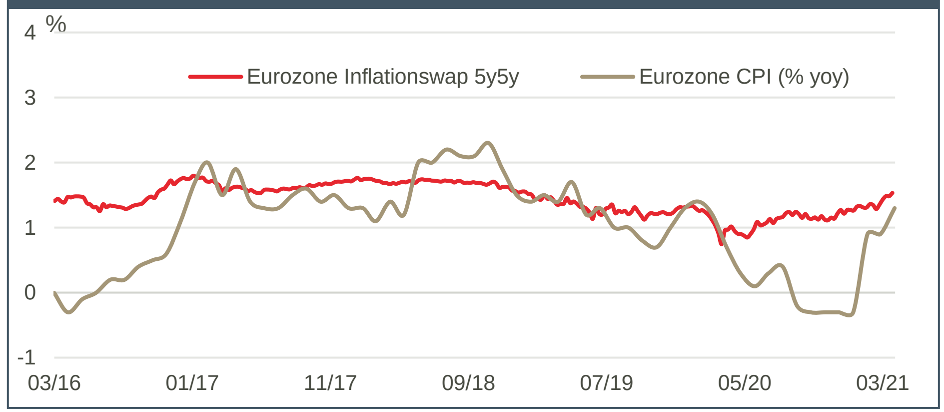
ECB Main Refinancing Rate, 3M EURIBOR & 3M EURIBOR FRAs



Market-implied inflation expectations (5y5y) & US CPI (%yoy)



Market-implied inflation expectations (5y5y) & Eurozone CPI (%yoy)



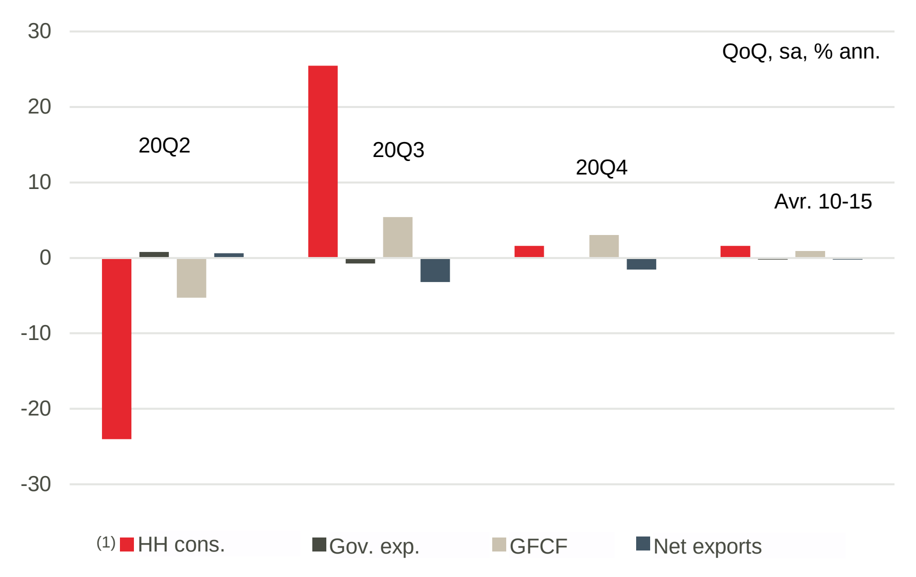
- ECB did walk the talk and increased their weekly PEPP program to more than 20bn Euro
- FED remains committed to ultra-low rates
- FED dots imply no rate lift-off before 2024
- Inflation expectations rise, but are still anchored

Sources: Bloomberg, ODDO BHF AM GmbH, as of 03/31/2021

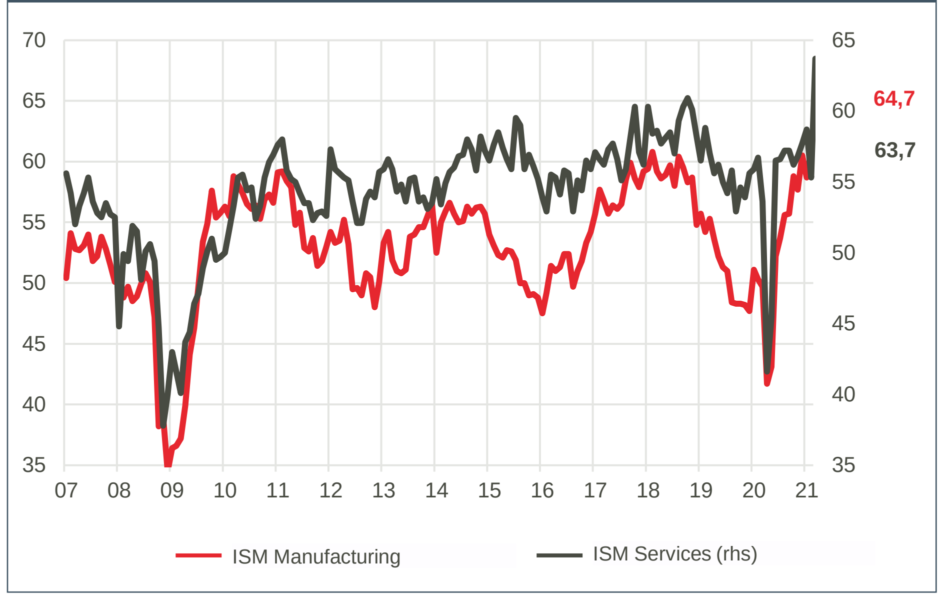
USA

Firing on every cylinder

Contributions to GDP (QoQ, seasonally adjusted, % annualised)*



Business confidence**



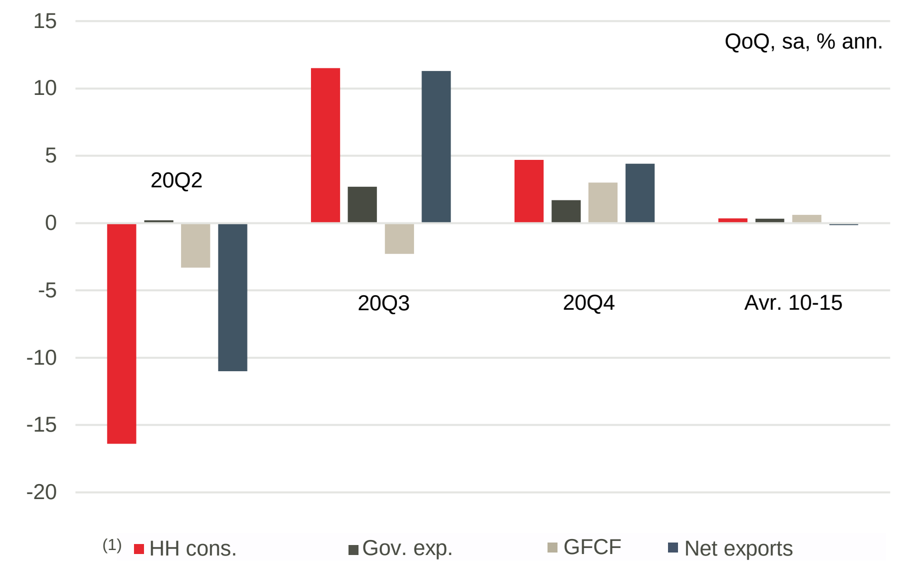
- Thanks to the progress in the vaccination process, extreme fiscal stimulus and reopening, growth has been strongly accelerating
- February data has been coming in a tad weaker mostly related to cold weather distortions
- March so far shows a strong improvement: ISM manufacturing and service indicators posted again strong gains across all subcomponents
- Also the employment report was very impressive with 916k new jobs and a net revisions of more than 150k over the two previous months
- Nevertheless, the pandemic has still subtracted more than 8mn jobs
- The only weaker spot currently is the housing market after having boomed for almost a year

(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation Net exports.
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *data as of 03/31/2021 |** Data as of 03/15/2021

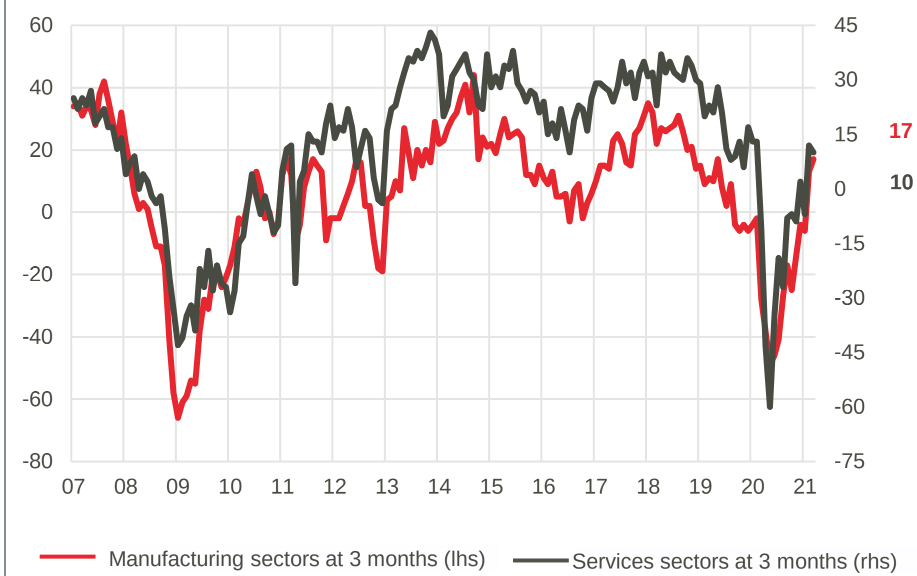
Japan

Modest contraction in Q1

Contributions to GDP (QoQ, seasonally adjusted, % annualised)*



Business confidence**



- Tankan in Q1 surprised to the upside for manufacturing and non-manufacturing subcomponents
- Especially, positive capex plans signal an upbeat trend
- Retail sales for February edged up 3,1% (MoM) after a decline in January

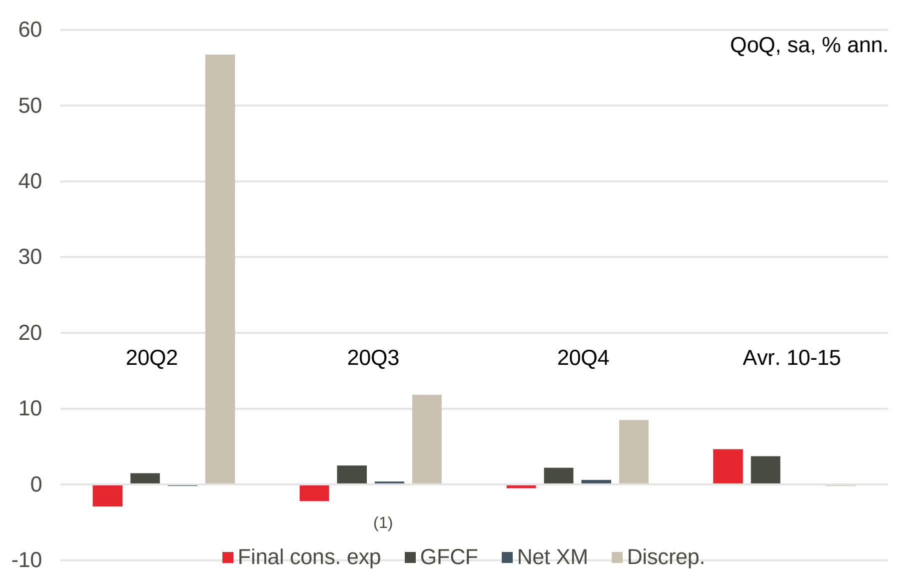
Monthly Investment Brief

(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment) Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 03/31/2021 | **Data as of 03/15/2021

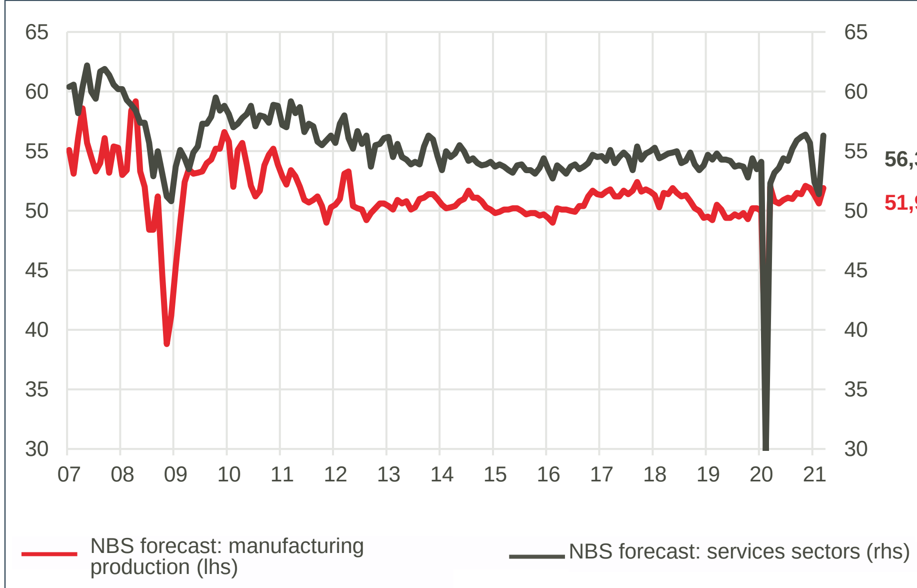
China

Fading credit impulse should dampen growth momentum

Contributions to GDP (QoQ, seasonally adjusted, % annualised)*



Business confidence**



- Composite PMI`s rebounded strongly in March after some slippage in the first two month
- Especially, the service side increased sharply after the end of travel restrictions
- Divergence in manufacturing between the NBS PMI (+1,3 points), while the Caixin slipped slightly 0,3 points to 50,6
- While policy normalization puts a lid on growth, strong consumer demand and global trade may partly balance that drag for the time being

Monthly Investment Brief

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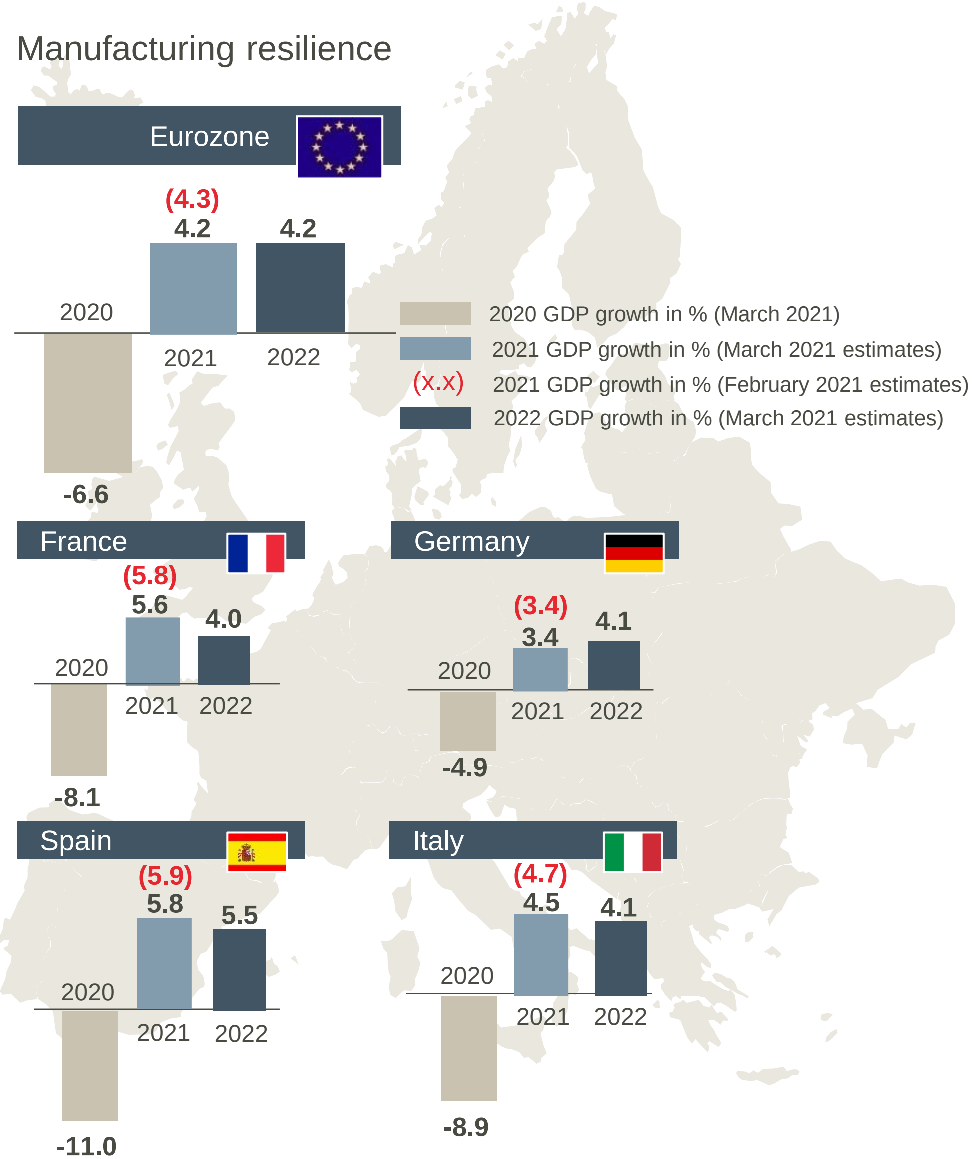
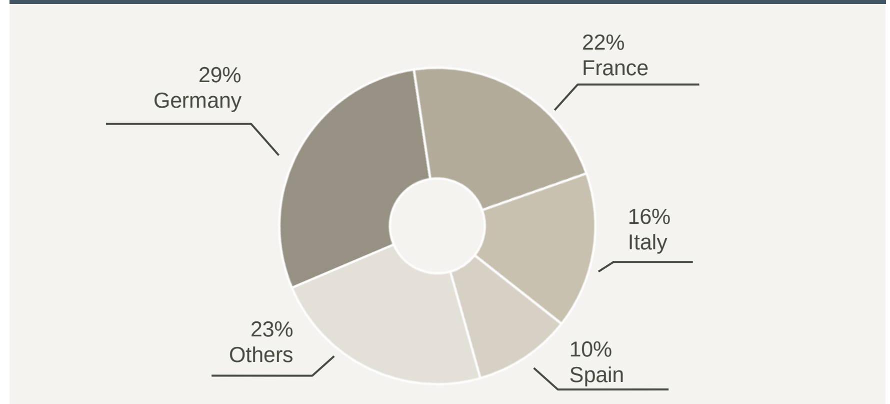
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 03/31/2021 | **Data as of 03/15/2021

Eurozone

Manufacturing resilience



GDP share (% of total Eurozone GDP)



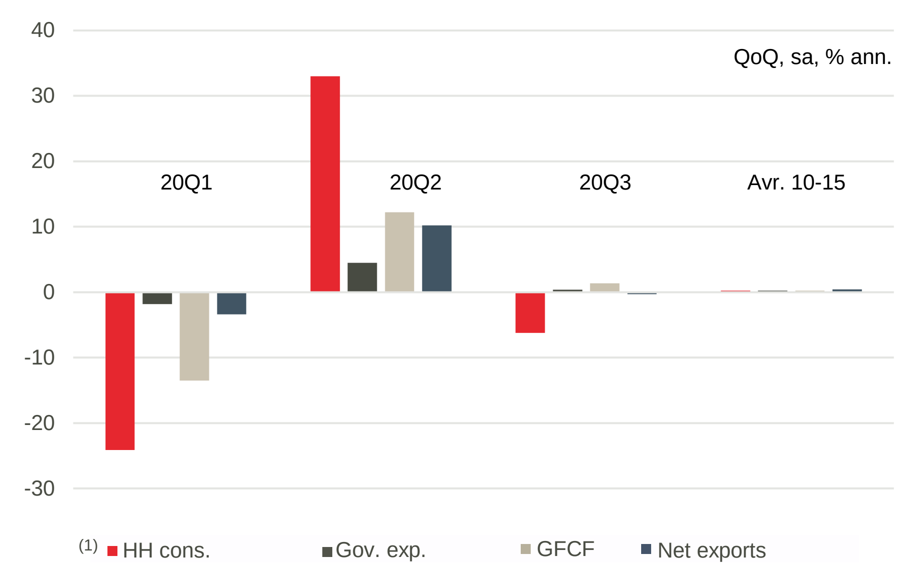
- Although growth has been downgraded because lockdowns are protracted (Germany) or newly imposed (France) the manufacturing sector continues to rebound
- Once restrictions can be lifted, hopefully starting in later May, pent-up demand is likely to boost the service sector

Sources: ODDO BHF AM SAS; Bloomberg Economist Forecast. Data as of 03/2021

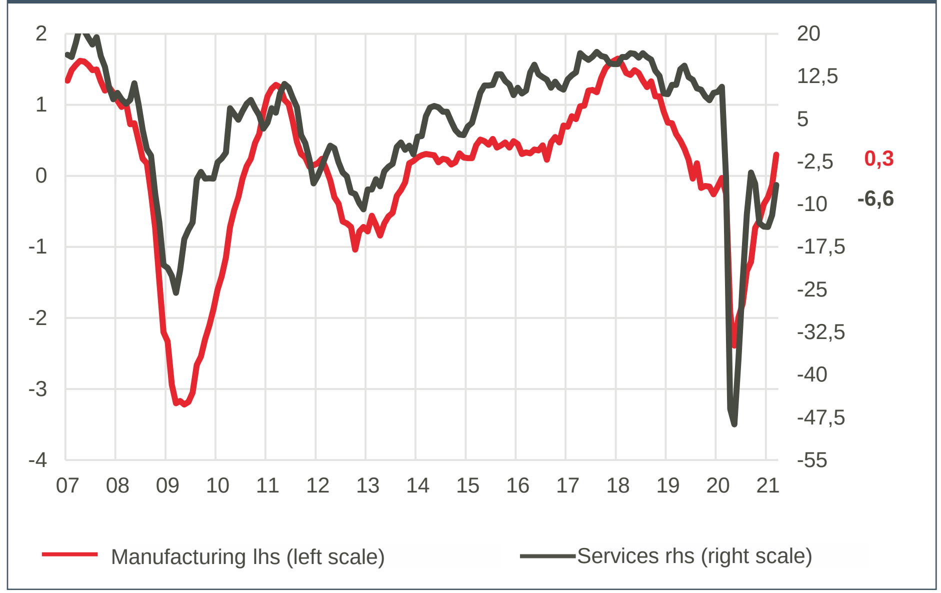
Eurozone

Vaccination progress remains the key

Contributions to GDP (QoQ, seasonally adjusted, % annualised)*



Business confidence**



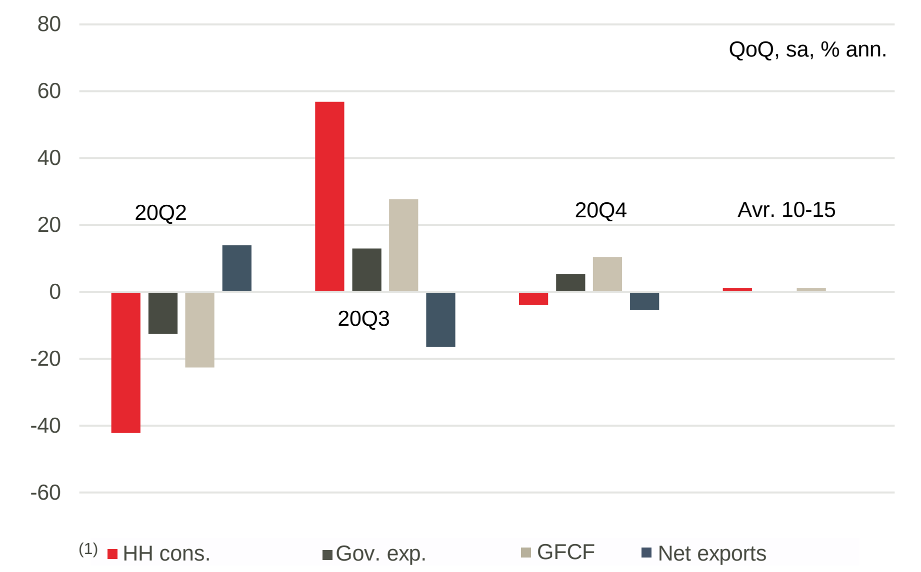
- Weakness of Q1 spills over into Q2 as France returns to lockdown and Germany extends restrictions
- However, this should mostly be offset by a stronger Q3
- Economic sentiment surged in March, on par with PMI – manufacturing Eurozone PMI climbed to 62,5, the highest level in 10 years
- Inflation remains volatile, with core inflation stepping down in March but headline edging up to 1,3%
- German labor market steady in 1Q21 as short-term subsidies remain in place
- Growth gap to the US continues to widen as fiscal support looks to be a modest 4% of GDP instead of around 12% in the states

(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 03/31/2021 | **Data as of 03/15/2021

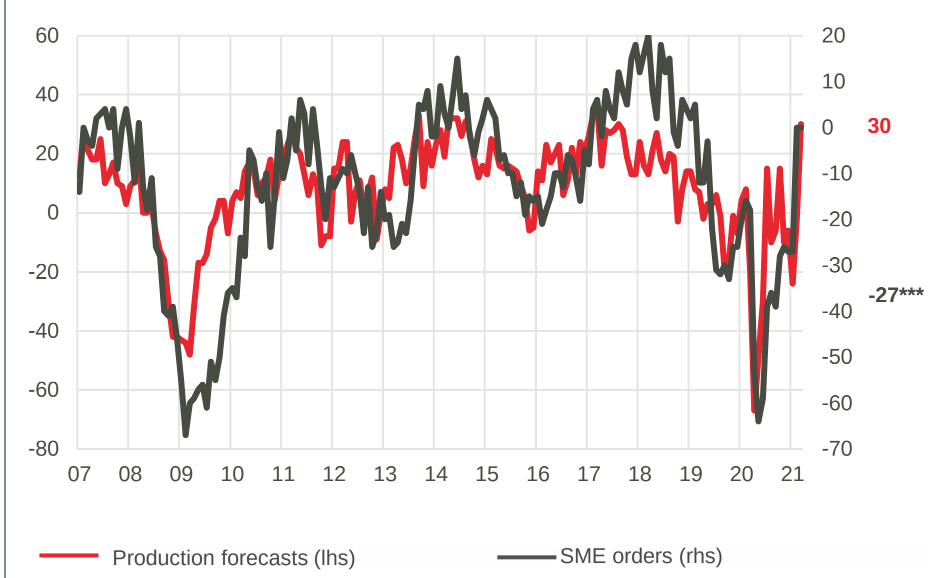
United Kingdom

From laggard to leader in disease management

Contributions to GDP (QoQ, seasonally adjusted, % annualised)*



Business confidence**



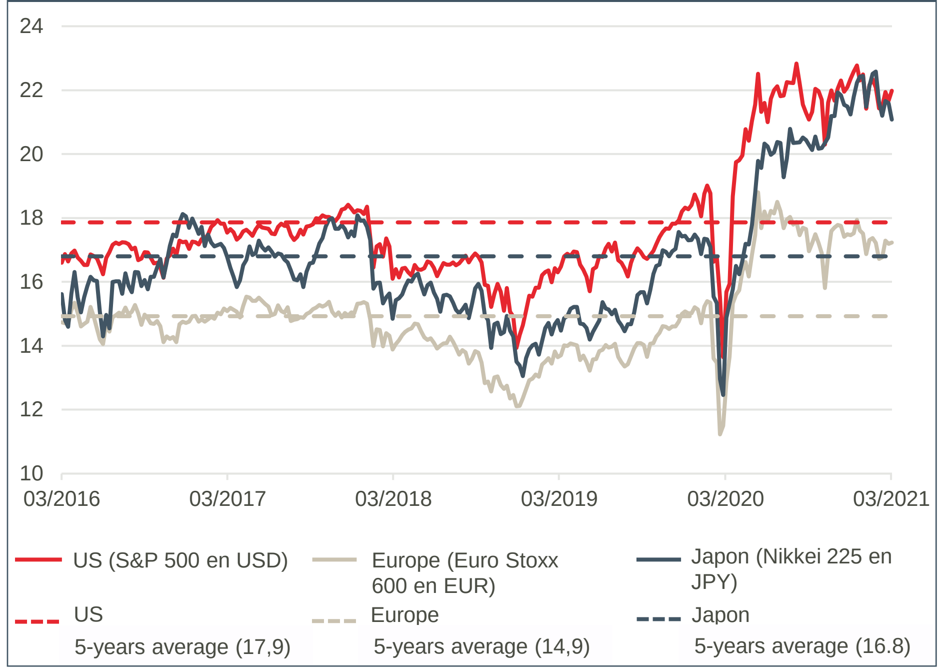
- Manufacturing PMI unexpectedly rose 1pt to 58,9
- 4Q GDP revised up, current account deficit widened
- Gross consumer lending still weak due to lockdown, but reopening starts as vaccination progress is well advanced
- Mortgage approvals fell back from high levels

(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 03/31/2021 | **Data as of 03/15/2021 | ***Data as of 01/15/2020

Equities – Overview

5-year equity market performance

5-year price/earning ratio

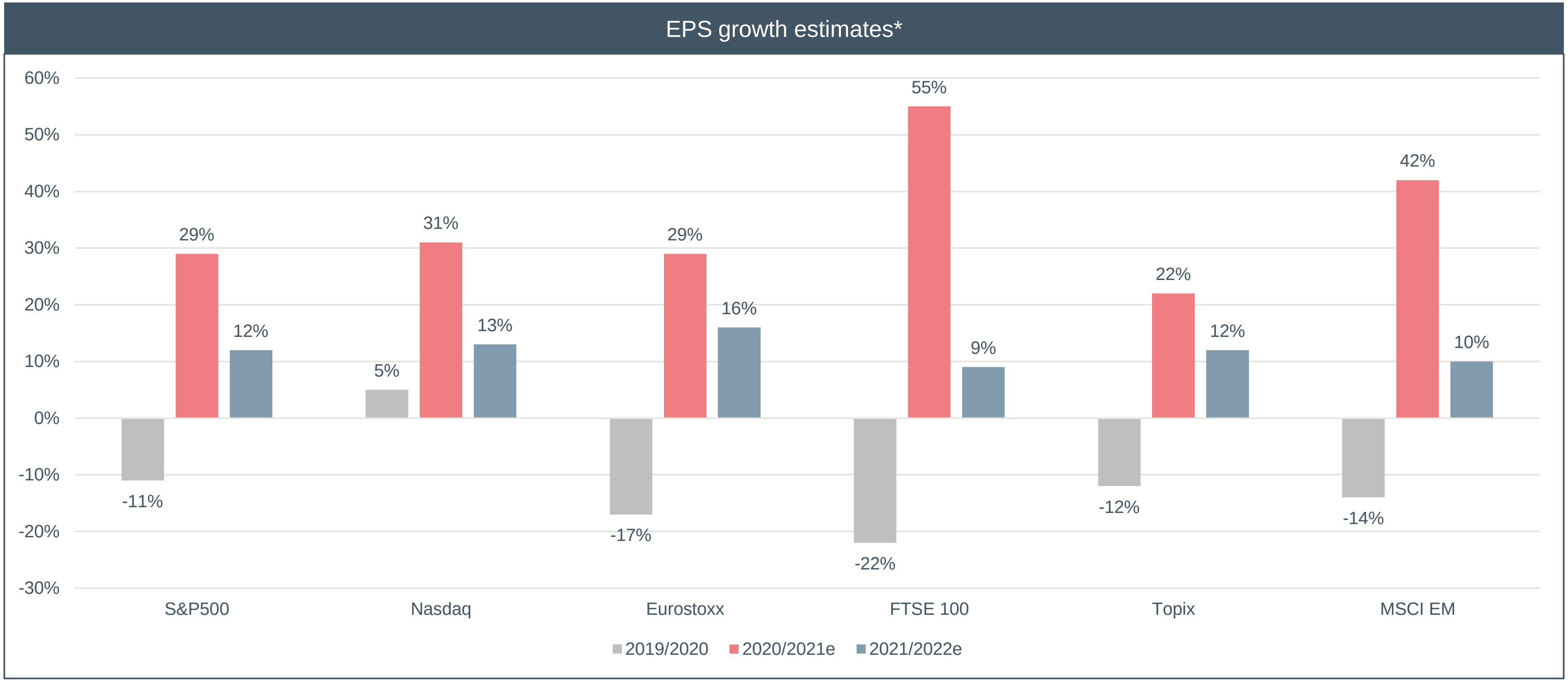


- Global equities, led by *value* themes, kept on rallying in March, once more reaching all-time highs. The MSCI World Index gained 4.2% (in local currencies, and 6.7% in EUR). EuroStoxx and Topix gaining respectively 7% and 5%, getting tailwinds from falling EUR (-3% vs USD) and JPY (-4% vs USD).
- Emerging equities' performances were slightly negative on average, with LatAm (+4%) clearly overperforming Asia (-1.6%). The Shanghai CSI 300 Index posted a -5% loss.
- Implied volatilities of equity indexes (measuring the cost of optional hedges) moved down sharply (VIX fell from 28 to 19%) and are back at « pre-Covid » levels. With rosy expectations on macro and monetary policies, investors are extremely confident on equities, despite impressing valuations.

Past performances are not a reliable indicator of future performances and are not constant over time.

Source: Bloomberg, ODDO BHF AM SAS | Figures as of 03/31/2021

Equities – EPS trends



- 2021 FY net earnings estimates have been revised up slightly this month (+2%), especially in the UK and China.
- Revisions are still positive for « commodity intensive » indexes, and earnings expectations in Brazilian, Australian and Russian markets are now respectively up 15, 18 and 12% since the beginning of 2021.

*Positive earnings only
Sources: ODDO BHF AM SAS, Bloomberg | Figures as of 03/31/2021

European equities

As markets rise, earnings growth momentum becomes increasingly discriminating

	12-month forward P/E, April 2021	2019 EPS growth	2020 EPS growth	2021 EPS growth	Dividend yield	YTD Perf.
STOXX Europe 600	18,0 x	3%	-27%	33%	3,0%	7,7%
Commodities						
Basic resources	9,7 x	-25%	15%	76%	5,6%	14,2%
Oil & Gas	13,7x	-16%	N/S	40%	4,6%	10,1%
Cyclicals						
Automotive and spare parts	10,0 x	-17%	-76%	355%	3,1%	23,8%
Chemicals	22,5 x	-13%	-19%	39%	2,4%	8,0%
Construction and materials	19,0 x	17%	-21%	25%	2,6%	11,8%
Industrial goods and services	23,5 x	6%	-30%	40%	1,9%	9,5%
Media	18,9 x	0%	-29%	17%	2,7%	9,9%
Technologies	30,1 x	7%	-3%	18%	0,9%	11,2%
Travel & leisure	-38,2 x	-5%	-351%	87%	0,8%	19,9%
Financials						
Banks	11,3 x	2%	-49%	43%	4,5%	18,8%
Insurance	11,0 x	7%	-22%	31%	5,0%	12,3%
Financial services	15,4 x	141%	-9%	-20%	2,8%	6,7%
Real estate	19,0 x	0%	-5%	5%	3,3%	-1,1%
Defensives						
Food & beverages	19,3x	7%	7%	7%	3,1%	1,6%
Healthcare	18,5 x	6%	0%	4%	2,6%	0,9%
Household & personal care	18,7x	2%	1%	3%	3%	4,0%
Retailing	24,7 x	0%	-50%	121%	2,2%	5,9%
Telecommunications	15,3 x	-5%	15%	-8%	4,2%	11,5%
Utilities	16,5 x	24%	-8%	11%	4,3%	-0,5%

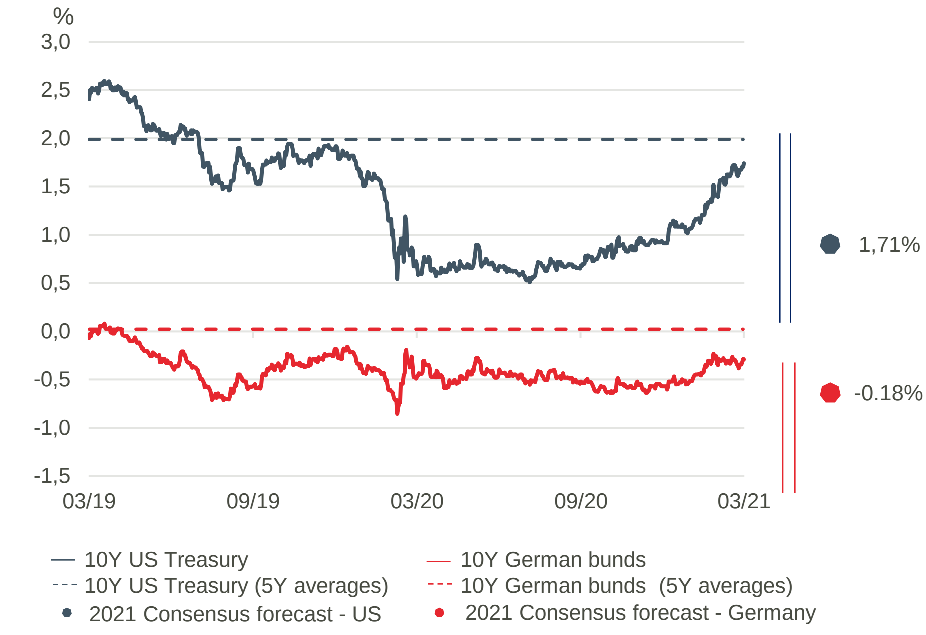
Source: ODDO BHF AM SAS, FactSet. Figures as of 04/01/2021

- The cyclical component continued to outperform, but the trend was less pronounced, with profit taking in the commodities sector in particular.
- The interest rate stabilisation has smoothed out sectoral dispersion somewhat, with the rebound of non-cyclical compartments that were " lagging behind ", such as Telecoms and Food and Beverages. The interest rate dynamic remains key in the choice of investment themes.
- Reflation and back-to-work themes should continue to be favoured by investors as vaccination curves and stimulus packages are being implemented around the world, although Europe is lagging behind the US.
- Stocks with reasonable multiples and quality cyclicals are still attractive as earnings momentum improves and the economy recovers in 2021/22, but greater selectivity is required given the rerating that has already occurred.
- The Banking & Automotive sectors remain tactically good investments in the current environment with earnings momentum still very strong. A preference for Premium Auto manufacturers.
- The technology sector continues to perform well and its cyclical components (semiconductors, software, IT services) continue to surprise positively, with growth prospects remaining robust.
- After a period of marked underperformance due to rotation and the US elections, the healthcare sector has regained a very attractive risk/reward profile for the second half of the year.

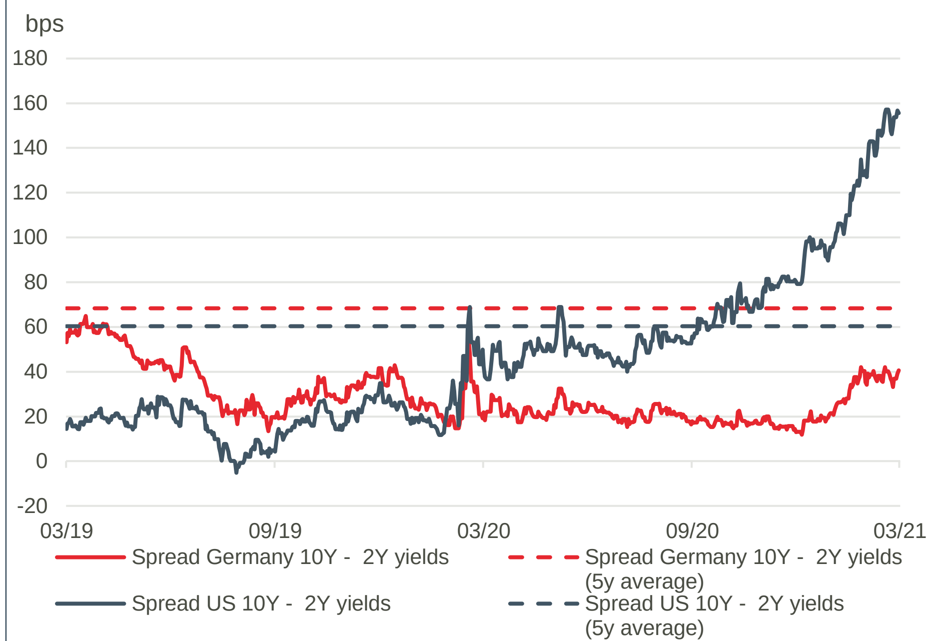
Fixed income – Rates

Can Central Banks stem the yield pressure?

German & US 10 - year bond yields (over 2 years)



German & US 2yr - 10yr yield curve (over 2 years)



- Despite accelerating US data, the FED`s commitment to a late rate lift-off has stabilized bond yields
- A gap has emerged between the FED dots which are flat until the end of 2023 and market expectations which reflect hikes long before
- As inflation acceleration in the US may prove to be more lasting than expected, rates may rise further from here
- It will be difficult for the ECB to shield the Eurozone against unwanted spillover effects from higher rates and steeper curves in the US

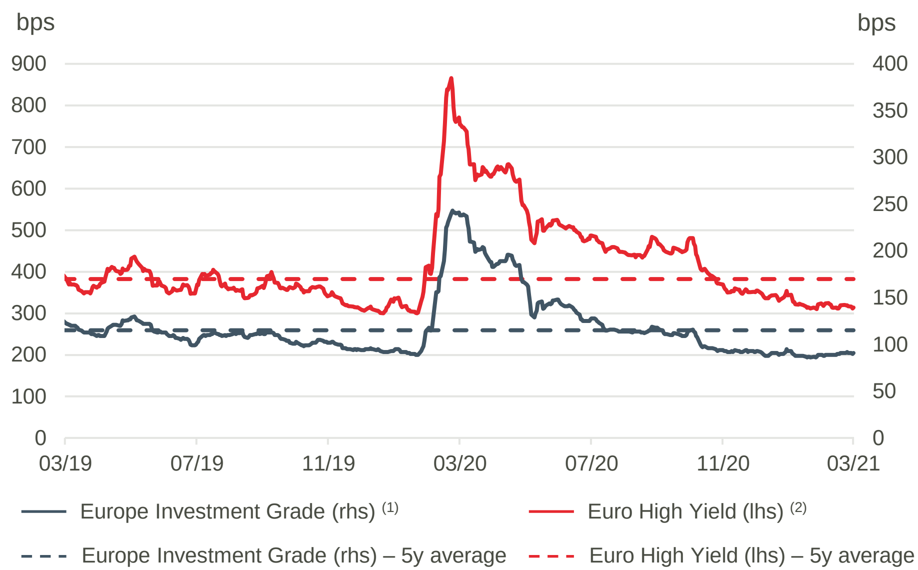
Past performance is not a reliable indicator of future performance and is not constant over time.

(1) Bloomberg Economic Forecast │Sources: ODDO BHF AM SAS, Bloomberg│LHS: Data as of 03/31/2021; RHS: Data as of 03/31/2021

Fixed income – Credit Spreads

Carry the focus

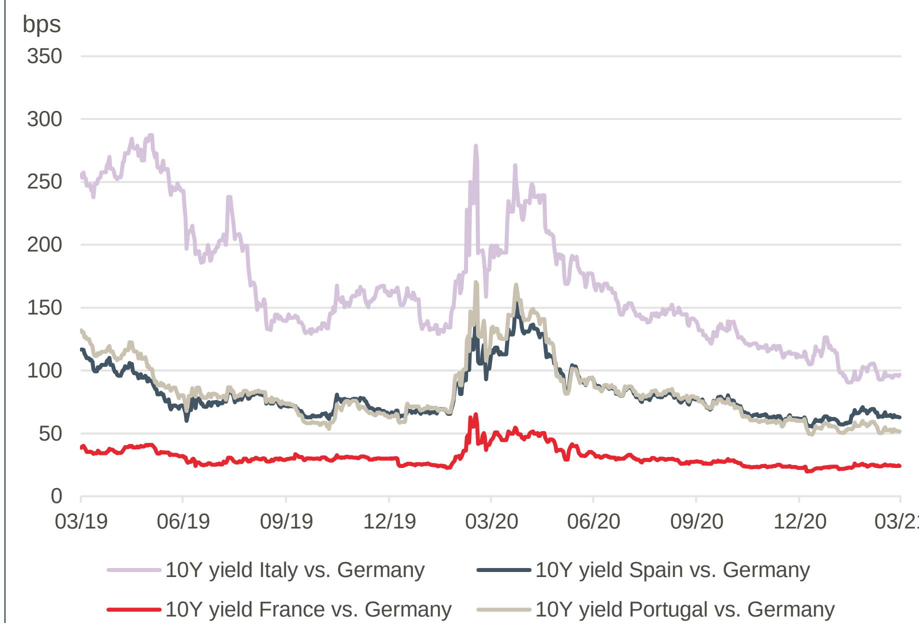
Credit spreads IG & HY (over 2 years)



(1) BofA Merrill Lynch Euro Corporate Index (ER00)

(2) BofA Merrill Lynch Euro High Yield Non-Fin. Constr. (HE00)

Main Eurozone country spreads (over 2 years)



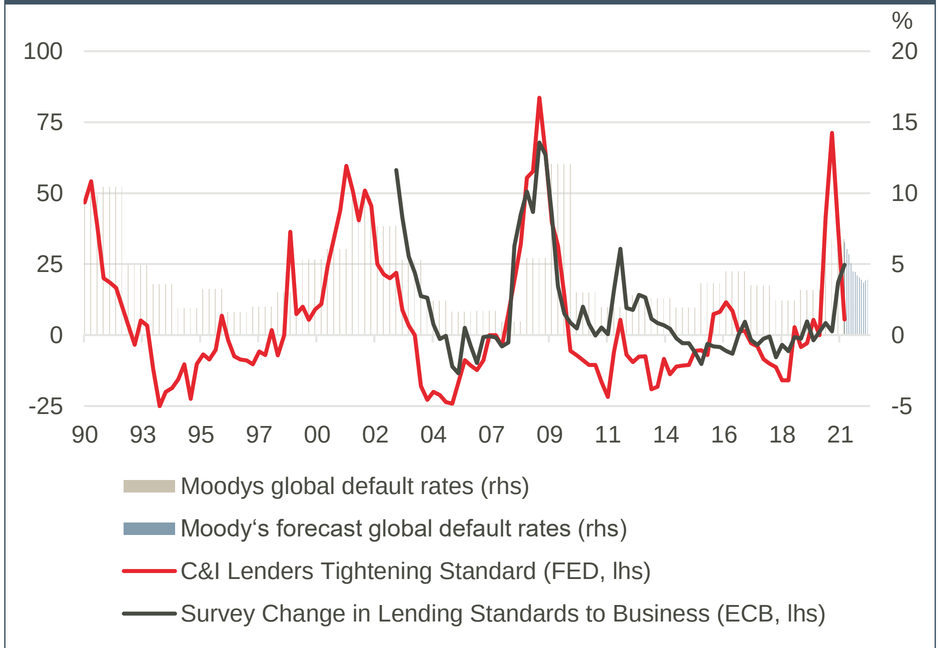
- Investment Grade corporate spreads barely changed from start of the year
- APP and lack of alternatives should leave spreads in a rangebound mode for now
- Focus is more on carry than spread tightening
- High yield has more potential, due to economic recovery prospects

Past performance is not a reliable indicator of future performance and is not constant over time.

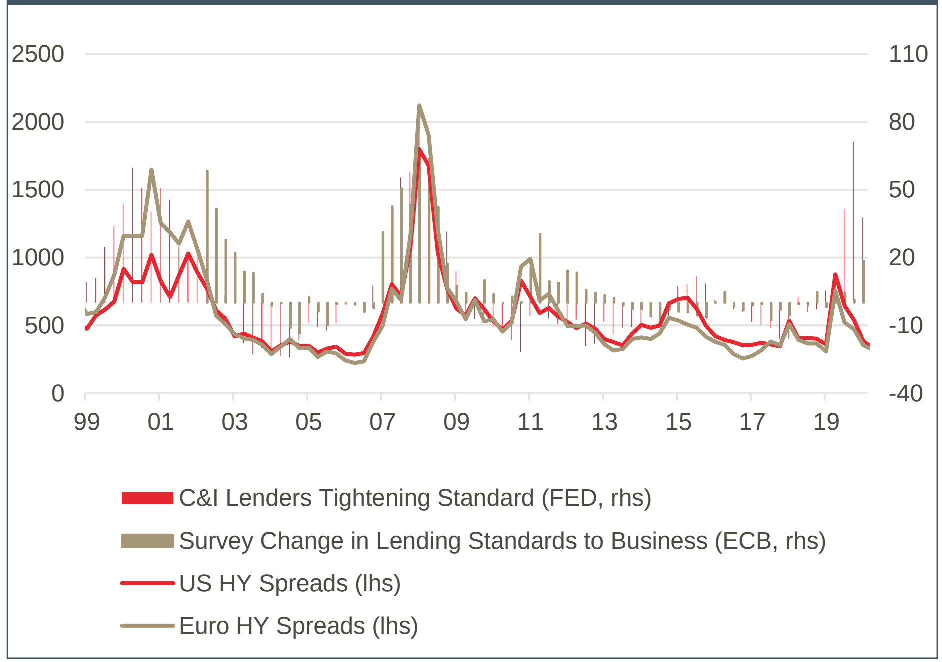
Sources: ODDO BHF AM SAS, Bloomberg | Data as of 03/31/2021

Commercial and industrial lending standards

Lending standards and default rate



Lending standards and spreads

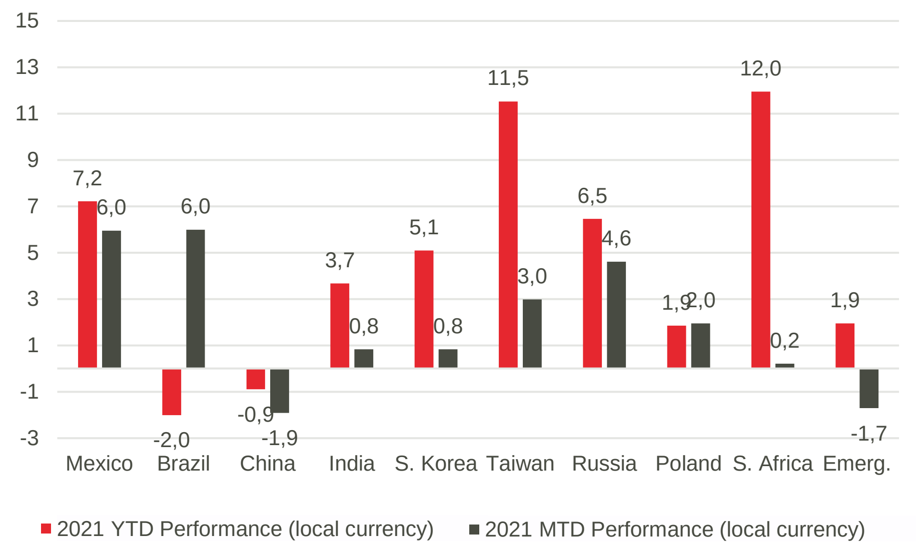


Source: Moody's as of 03/08/2021, Fed, ECB, Bloomberg | Data as of 03/31/2021

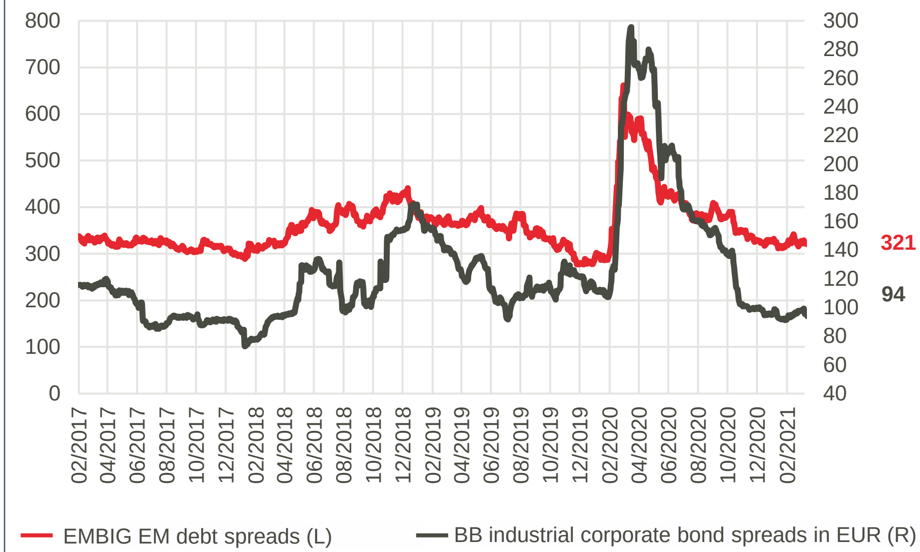
Emerging markets

Some limited catch-up potential

Equities performance on major emerging markets



EM debt spreads vs. BB industrial corporate bond spreads in EUR



- Emerging markets equities have lagged the recent rally as higher US rates and a stronger USD put a lid on relative performance
- We see some catch-up potential for GEM as US rates appear to be in a stabilization phase, but would expect a continued underperformance later in the year
- Bonds offer good carry, but might face further headwinds in a rising rate environment

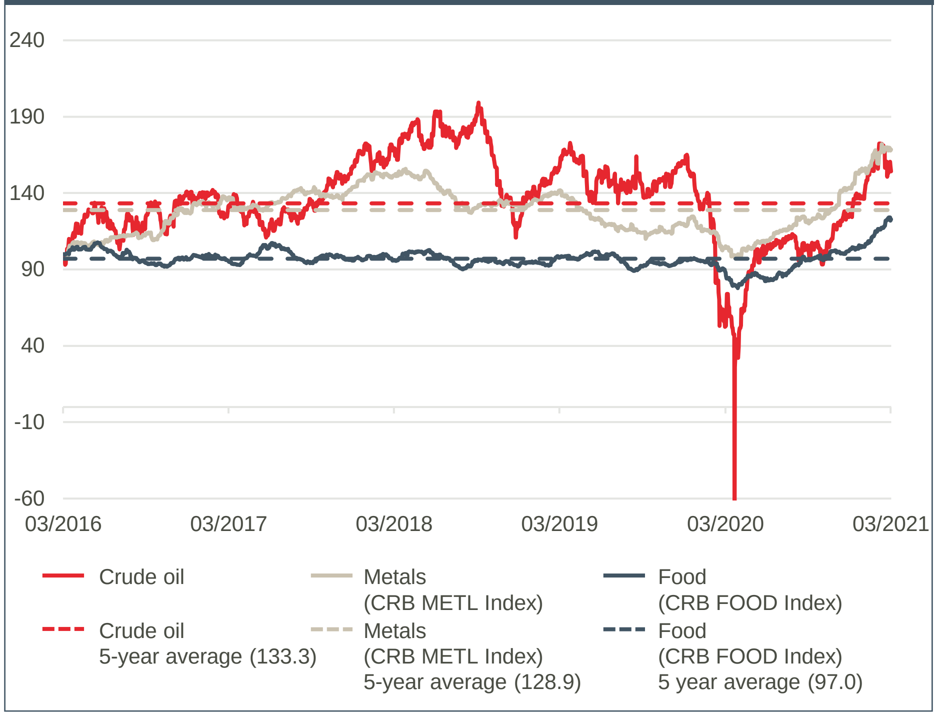
Past performances are not a reliable indicator of future performance and are not constant over time.

Sources: Bloomberg, ODDO BHF AM SAS | Data at 04/06/2021

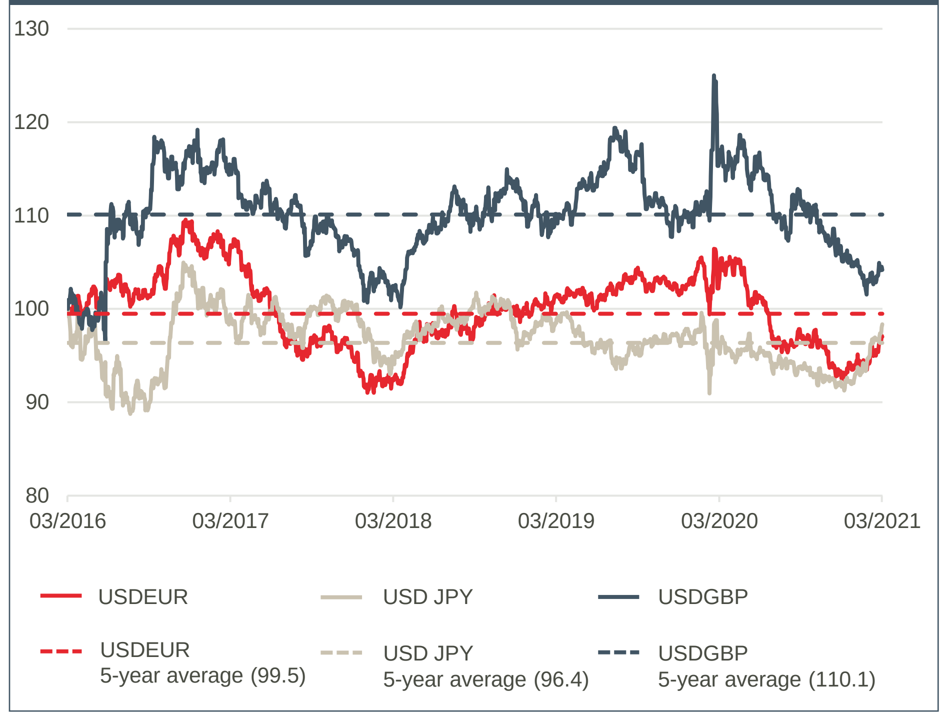
Currencies and commodities

USD countertrend probably not over

Commodities - Change over 5 years



Currencies - Change over 5 years



- After some weeks of a modest upswing, the USD has again lost some ground towards 1,19* for EUR/USD
- The growing growth gap and the still high rate differential between the US and the Euro Area should limit any upside for the Euro for now
- However, growth convergence later this year coupled with the structural handicaps of the USD (double deficit) should see another attempt for a Euro rally against the USD

Past performances are not a reliable indicator of future performance and are not constant over time.

Sources: Bloomberg, ODDO BHF AM SAS | Data at 03/31/2021 | Data at 04/08/2021

Ecological transition : challenges and opportunities

- What does ecological transition mean?
- Why ecological transition is a necessity?
- What is an efficient energy mix for a successful ecological transition?
- Can regulation help to speed up the ecological transition?
- What role can an investor play in financing the ecological transition?

Discussion between **Jean-Marc Jancovici**, Partner at Carbone 4, and
Nicolas Jacob, Head of ESG Research at ODDO BHF Asset Management

Go to site

Glossary

How performances are calculated	Cumulative fund performance is calculated based on dividends reinvested. Annualised performance is determined on an annual, 365-day actuarial basis. A fund’s performance relative to its benchmark index is expressed as arithmetic difference. Static indicators are generally calculated on a weekly tick that is taken on Fridays, or failing that, on the day prior to valuation.
Volatility	Volatility is a risk indicator measuring the level of fluctuations observed in a portfolio (or index) over a defined period. It is calculated as annualised standard deviation of absolute returns within a defined period of time.
Credit spreads (credit premiums)	The credit spread is the risk premium or the difference between the yields of corporate bonds and that of sovereign bonds with the same characteristics.
Investment grade	Investment-grade bonds are bonds issued by issuers rated between AAA to BBB- by Standard & Poor's or the equivalent.
High yield	High-yield bonds are speculative bonds rated lower than BBB- (Standard & Poor's) or the equivalent.
PE (price-earnings ratio)	A stock’s price-earnings ratio is equal to the stock’s price divided by the issuing company’s earnings per share. It is also called the “earnings multiple”. It depends mainly on three factors: the company’s forecast earnings growth, the risk associated with these forecasts, and the level of interest rates.

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Notes