ODDO BHF ASSET MANAGEMENT

ODDO BHF FRANKFURT-TRUST

FIZZ…

Investment strategy

JANUARY 2018

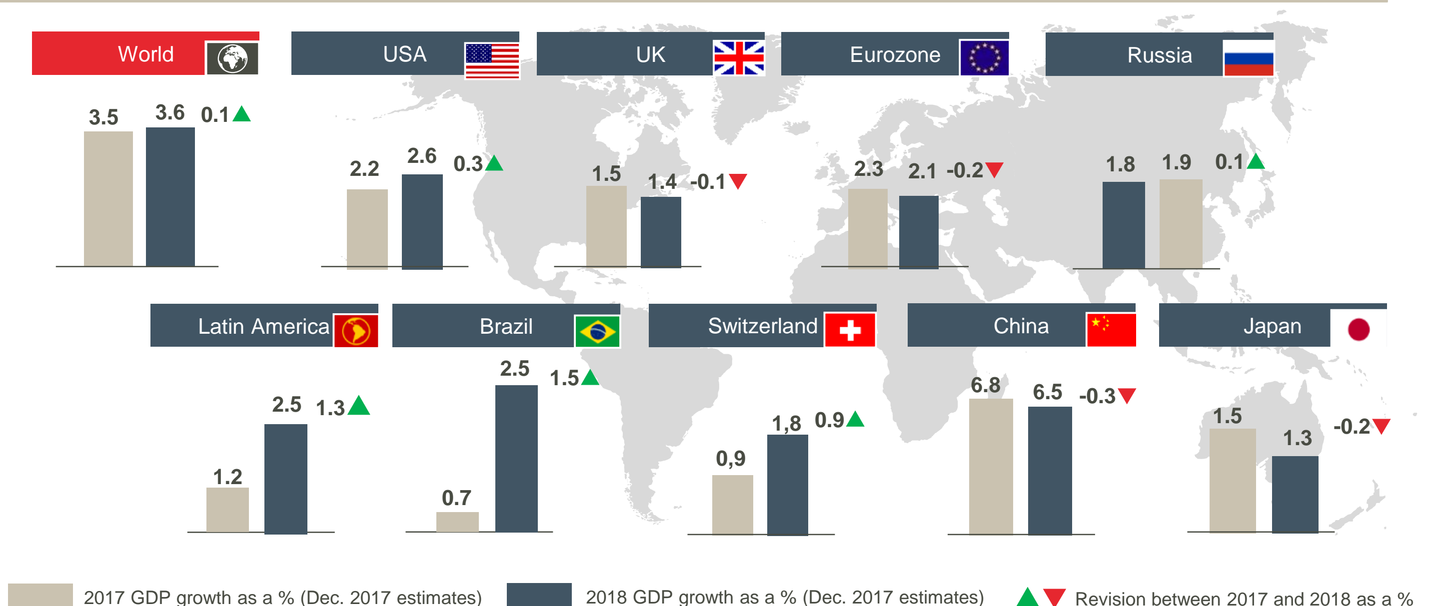
2017: another good year for risky assets

While US-President Trump's government style perplexed the world and North Korea's leader Kim-Jong Un tried to get more attention with a series of rocket tests, investors preferred to look the other way. Geopolitical risk therefore was a sideshow in 2017. The setbacks for European populists in elections in the Netherlands and France surely contributed to the improvement of the mood. But in the end it was a global economy in its best shape in decades that helped to propel the markets.

Synchronized worldwide growth (at the end of 2017 there were only six countries in the world in recession) boosted corporate profits globally and led to record flows into all sorts of risky assets. Emerging market equities lagging behind in previous years delivered the best equity performance in 2017 followed by US and Japanese equities. While risk-taking was rewarded risk-averse investors weren't punished. Interest rates remained stable and bond investors could generate income with high yield and emerging markets bonds.

Will this Goldilocks scenario go on forever or at least for another year?

Global GDP* growth forecasts for 2018



2017 GDP growth as a % (Dec. 2017 estimates) | 2018 GDP growth as a % (Dec. 2017 estimates) | Revision between 2017 and 2018 as a %

Our scenario for 2018: Risk-on !

Going into the New Year, all major markets are showing a strong growth dynamic. We expect above-potential growth in the US where the tax reforms may increase GDP growth by 0.3%. In this environment, the FED will maintain the pace of its monetary normalization. After three rate hikes in 2017, at least three further hikes in 2018 are to be expected. This should push long-term rates upwards but will not be enough to derail the rally of risky assets.

The ECB lags behind the FED in the interest rate hike cycle. We expect its policy still to be accommodating, hence, no rate hike on the horizon. First reductions in the QE bond buying program are more than probable. With growth still strong and above potential, the Eurozone will be the market to watch in 2018. How risks from the Italian elections and the final results of the lengthy coalition talks in Germany will affect the market environment remains to be seen.

With GDP growth estimates for the Emerging markets at 4.5 % they will continue to provide investors with good returns. Japan should profit from an increase of investment spending for public infrastructure. A slight slowdown is to be expected in China, as the government is trying to deflate the credit boom as smoothly as possible and has to reduce excess capacity in the industry.

*GDP: Gross Domestic Product | Sources: Oddo BHF AM SAS, Bloomberg economist consensus forecast | Data at 31/12/2017

While we believe that investors will be rewarded for taking risks in 2018 (as they were in 2017) there are some points that may influence our long term view for the markets. Besides of a possible growth slowdown in China protectionist trade shocks expected for the first year of the Trump presidency could resurge before the US mid-term elections in November. Rising geopolitical risks in North Korea and Iran may disrupt the optimistic mood of investors.

Will European equities accelerate in 2018 ?

Europe, and especially the Eurozone, in our view, is the best option for equity investors. Here the economy is firing on all cylinders in Germany and at least recovering in some of the laggards in Southern Europe. Consumer and business confidence indicators are getting better and industrial production is picking up. But the best reason to buy European equities seems to be their valuation. In comparison with US equity markets, which boomed in the last three years, Europe stayed behind - a gap that deepened even further in 2017. So the P/E ratio for the Stoxx Europe 600 is now 18 % lower than for its US equivalent, the S&P 500. Additionally dividend yields for European equities in average now are higher than most bond yields in Europe. As the average EPS for European equities is 15 % below its 2007 level there's still a lot to gain.

In a high growth environment European large caps have a lot of catch-up potential even against the headwind of a strong Euro. We also believe they will beneficiate from the US tax reform. Two years after the emergence of the diesel scandal it's time to reconsider the automotive sector. All German car manufacturers reported sales records for the last year and their valuations are still attractive. Banks are also well placed to profit from the improving economy: as future beneficiaries of a hike in long term rates, they offer high growth potentials as well as high dividends.

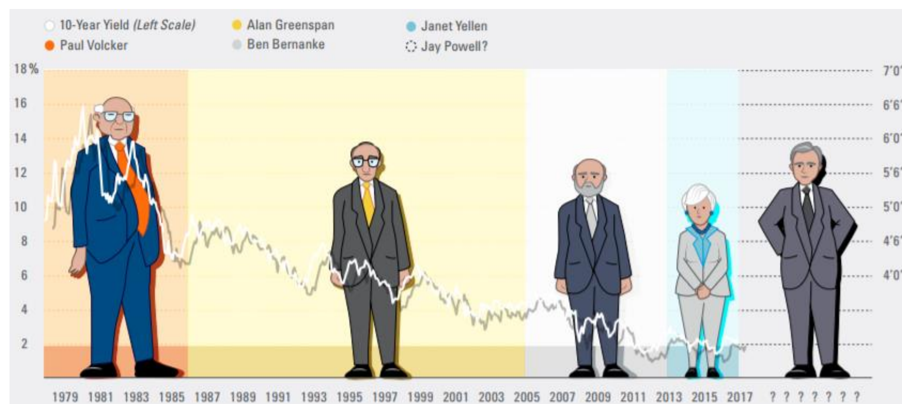
Should investors stay exposed to US equities ?

For us, the answer is yes. US corporates are still able to deliver on their promises: the earnings growth dynamic is intact and valuations are reasonable with regard to interest rates. At least in the short term the tax reform, passed just before Christmas, will accelerate growth by reducing the corporate tax from 35% to 21%. Not only will the reform boost profits and salaries but also foreign investments in US firms and the repatriation of profits. We shouldn't forget the negative long term effect for the US federal deficit, but in the present the reform will be good for the US economy. We continue to favor the technology sector as profit margins here are higher than for US equities in general. To diversify the portfolio with defensive equities we recommend the health care sector.

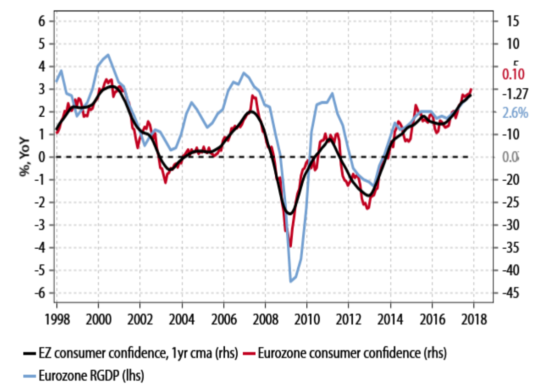
What about emerging markets ?

Emerging markets still offer a robust environment for growth so there is no need for investors to leave the region. Even if China's economic growth decelerates, this should be no short-term concern, as it happens in line with the aim of the government to stabilize the economy. The most attractive equities in the Emerging markets will profit from the growing consumer demand of the newly established middle classes.

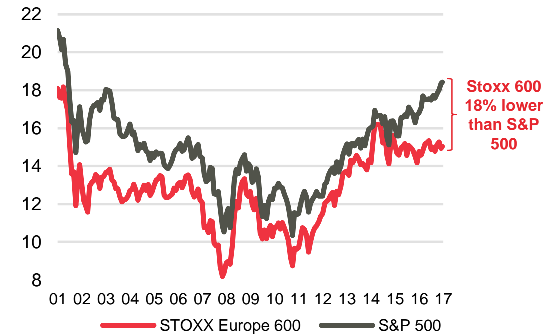
How to position in the fixed income field ?



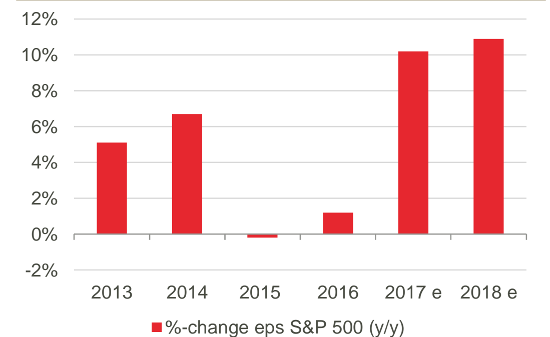
Eurozone: consumer confidence and GDP



Average P/E ratios of European equities vs US equities



US: Earnings growth (S&P 500)



Sources: Oddo BHF AM SAS, Gavekal Data / Macrobond, Bloomberg, Factset, LPL Research | Data as of December 2018

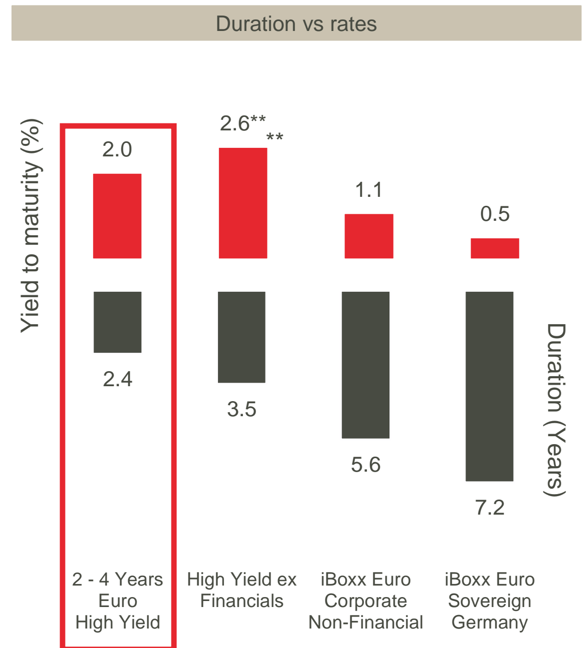
Inflation is not dead: limit your duration through short term high yield or target date bond strategies

Inflation is not a thing of the past and 2018 could see first signs of its return in the developed markets. Many indicators like falling unemployment figures, wage growth and commodities are turning. We also see a slight upturn in US inflation indicators which will affect rate curves. Bond investors trying to limit their duration risk without sacrificing yield do not have many options. In the Euro area only short-term high yield offers value against duration risk. The good news is that the fundamentals for this asset class are strong which support Moody's expectation for a global default rate to fall below 2% end of 2018. Moreover the average quality of the European high yield market has sharply improved compared to 2007.

Another way to profit from characteristics of the High Yield universe is to invest with a fixed timeframe. As High Yield credit curves are steep there are more opportunities to benefit from the roll-down effect (the increasing market price of the bond as it "rolls down" the yield curve). The fixed timeframe strategy enhances bond investment returns in the positive scenario we currently expect, but through the return-to-par-effect also offers some protection in a negative scenario.

Another strategy to consider in a market environment, where interest rate risk increasingly is an issue, is the unconstrained bond strategy. It offers an attractive solution for bond investors trying to minimize risks and maximize returns. With the ability to adopt a neutral duration this strategy can generate a high performance independently of change in rates while benefiting from the corporate bonds' spreads. It also allows exploiting opportunities across the whole fixed income universe and quickly adopting it's positioning as market conditions change.

Duration vs rates



Our solutions

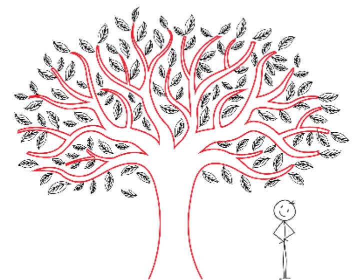
Oddo Génération I Successful entrepreneurship over generations

An all cap European equity portfolio to try to benefit from both the catch-up potential on European large cap equities and the attractive valuation / growth profile of European small cap equities

★★★★[1]
MORNINGSTAR™

€843m
Assets under management

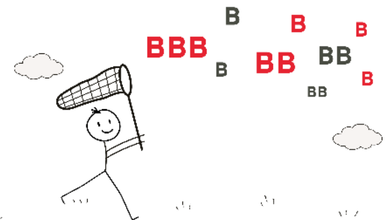
1 2 3 4 **5** 6 7
Risk return scale*



ODDO BHF Haut Rendement 2025 I Capture the yield

Limit your duration thanks to a dated fund invested in speculative high yield bonds maturing in 2025.

1 2 **3** 4 5 6 7
Risk return scale*



BHF Value Balanced FT I High quality investing, perfectly balanced

A balanced asset allocation portfolio which enables to access a broad range of asset classes and geographical regions. This strategy, with its flexibility and sustainable approach, could be the solution for investors seeking returns.

★★★★★[1]
MORNINGSTAR™

€264m
Assets under management

1 2 3 **4** 5 6 7
Risk return scale*

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 December 2018

ODDO BHF AM and FRANKFURT-TRUST Investment-Gesellschaft mbH are the asset management divisions of the ODDO BHF Group. ODDO BHF AM is the common brand of two legally separate asset management companies: ODDO BHF AM SAS (France) and ODDO BHF AM GmbH (Germany).

This document has been drawn up by ODDO BHF ASSET MANAGEMENT for market communication. Its communication to any investor is the responsibility of each promoter, distributor or advisor.

Potential investors are invited to consult an investment advisor before subscribing to the fund regulated by the Autorité des Marchés Financiers (AMF). **The investor is informed that the funds present a risk of capital loss, but also many risks linked to the financial instruments/strategies in the portfolio. In case of subscription, investors must consult the Key Investor Information Document (KIID) and the fund's prospectus in order to acquaint themselves with the detailed nature of any risks incurred.** The value of the investment may vary both upwards and downwards and may not be returned in full. The investment must be made in accordance with investors' investment objectives, their investment horizon and their capacity to deal with the risk arising from the transaction. ODDO BHF ASSET MANAGEMENT SAS cannot be held responsible for any direct or indirect damages resulting from the use of this document or the information contained in it. This information is provided for indicative purposes and may be modified at any moment without prior notice.

Investors are reminded that past performance is not a reliable indication of future returns and is not constant over time. Performance are presented net of fees except the potential subscription fee charged by the distributor and the local taxes. Any opinions presented in this document result from our market forecasts on the publication date. They are subject to change according to market conditions and ODDO BHF ASSET MANAGEMENT SAS shall not in any case be held contractually liable for them. The net asset values presented in this document are provided for indicative purposes only. Only the net asset value marked on the transaction statement and the securities account statement is authoritative. Subscriptions and redemptions of mutual funds are processed at an unknown asset value.

The Key Investor Information Document and the prospectus are available free of charge from ODDO BHF ASSET MANAGEMENT SAS or FRANKFURT-TRUST Investment-Gesellschaft mbH or at am.oddo-bhf.com / www.frankfurt-trust.de or at authorized distributors. The annual and interim reports are available free of charge from ODDO BHF ASSET MANAGEMENT SAS or on its internet site am.oddo-bhf.com or by simple request to FRANKFURT-TRUST Investment-Gesellschaft mbH.

The mentioned funds are exposed to the following risks:

Oddo Génération: risk of capital loss, equity risk, risk associated with holding small and mid caps, risk associated with discretionary management, interest rate risk, credit risk, counterparty risk, currency risk, risk associated with commitments on forward financial instruments, risk associated with securities financing transactions and collateral management, and, to a limited extent, emerging markets risk.

ODDO BHF Haut Rendement 2025: risk of loss of capital, discretionary management risk, emerging market risk, interest-rate risk, credit risk, risk incurred from investing in high yield securities, risk from exposure to forward financial instruments, risk of liquidity of underlying assets, counterparty risk, portfolio concentration risk, and, on an accessory basis, equity risk, risk incurred from investing in convertible bonds, small and midcap risk, and currency risk.

BHF Value Balanced FT: risk of capital loss, risk associated with discretionary management, equity risk, interest-rate risk, credit risk, risks associated with portfolio concentration, risk associated with holding small and mid caps, currency risk, counterparty risk, liquidity risk of underlying assets, risks linked to the use of overexposure, risks associated with securities financing transactions and collateral management. The Fund will be exposed, to a limited extent, to the following risk: emerging markets risk, risk associated with high yield bonds.

Investors should consult the KIID and the fund prospectus to obtain detailed information on risks to which the fund is exposed.

ODDO BHF Asset Management SAS (France)

Portfolio management company approved by the Autorité des Marchés Financiers under GP 99011.
Société par actions simplifiée with capital of €7,500,000. Trade Register (RCS) 340 902 857 Paris.
12 boulevard de la Madeleine – 75440 Paris Cedex 09 France – Phone : 33 (0)1 44 51 85 00
am.oddo-bhf.com