

BNP Paribas Flexi I US Mortgage Fund

Monthly Report January 2019 FOR PROFESSIONAL INVESTORS

Investment Objective

The BNP Paribas Flexi I US Mortgage Fund ("Fund") seeks to achieve as high a level of total return as is consistent with the stability of capital. The Fund invests primarily in mortgage, asset-backed and other mortgage-related securities and maintains an average US dollar-weighted duration within one year (plus or minus) of the average US dollar-weighted duration of the Bloomberg Barclays US MBS Index.

Investment Strategy

The Fund primarily invests in high quality (rating of AA by S&P, Aa by Moody's or a comparable rating or higher from a nationally recognized statistical rating organization) mortgage and asset-backed securities using hedging techniques to manage the various risks inherent in mortgage-backed securities. The Fund seeks to outperform the Bloomberg Barclays US MBS Index. The Index tracks the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC). Securities for the Fund are carefully selected from the broad universe of mortgage-backed securities based on the unique risk/reward characteristics of each holding while taking into account the marginal impact each position has on the overall interest rate risk, prepayment risk, basis risk, convexity risk and volatility risk of the Fund relative to its benchmark.

BNP Paribas Flexi I US Mortgage Fund Performance

Institutional Cap, Net of Fees (USD)

| | Total Return (%) ¹ | | | Risk | | | |
|---------------------------|-------------------------------|---------------------------------|-------|---------------------|----------------------|---------------------|--------------------------------|
| | Fund | Bloomberg Barclays US MBS Index | Net | Fund Volatility (%) | Index Volatility (%) | Tracking Volatility | Information Ratio ² |
| January 2019 | 0.91 | 0.79 | 0.11 | | | | |
| Last 12Mths | 1.26 | 3.00 | -1.73 | 2.77 | 2.71 | 0.72 | -2.42 |
| Last 3Yrs | 1.19 | 1.54 | -0.35 | 2.40 | 2.22 | 0.75 | -0.47 |
| Inception Jul 2015 | 1.74 | 1.95 | -0.20 | 2.32 | 2.15 | 0.77 | -0.26 |

Source: BP2S

¹ Time-weighted rates of return net of fees. All returns for periods less than one year are unannualized. Portfolio returns are calculated on a trade-date basis. Past performance is not necessarily indicative of future results.

² Return increment divided by the tracking volatility.

On September 25 2015, Parselect US Mortgage was transferred into a sub-fund of the BNP PARIBAS FLEXI I Luxembourg SICAV, creating the BNP FLEXI I US mortgage Fund. All performance and risk indicators numbers presented in this document prior to 25/09/2015 are those of the former Parselect US Mortgage fund

Fund Profile

Investment Manager

BNP Paribas Asset Management
Luxembourg

Fund Domicile and Form

Domiciled in Luxembourg, UCITS

Share class/strategy Incep. Date

Sep. 2015 /Dec. 2007

Benchmark

Bloomberg Barclays US MBS
Index

Available Currencies

USD, EUR, CHF, GBP

Total Fund AUM

US \$1,320 million

Share Price

US\$106.28

Credit Quality Limitations

Min. Average Rating: AA by S&P
or Aa2 by Moody's
Min. Per Issue Rating: BBB by
S&P or Baa by Moody's

Dealing Day

Daily (each business day)

Subscription

Application and funds must be
received by 4pm (Luxembourg
time) on the applicable Dealing
Day

Redemption

Redemption of shares can be
made at the Net Asset Value per
share on any Dealing Day

Custodian

BNP Paribas Securities Services,
Luxembourg

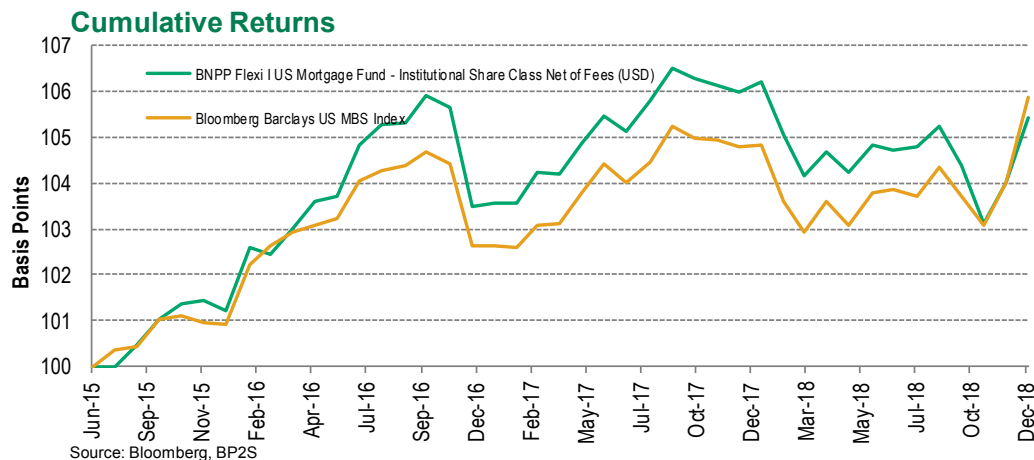
Source: BNP Paribas Asset Management

All data as of January 31, 2019 unless otherwise noted. Please note that BNPP AM utilizes pricing sources and methodologies which reflect market practice. However, the custodian, who maintains the official books and records for the portfolio, may utilize different pricing sources resulting in deviations between BNPP AM's and its valuations. Further, from time to time financial markets may suffer periods of illiquidity caused by unusual volatility or extreme disturbances and prices realized could vary widely from recent valuations. Past performance is not indicative of future performance and the value of investments and the income derived from those investments can go down as well as up. Future returns are not guaranteed and a loss of principal may occur. There can be no assurance that the targeted tracking error stated above can be achieved. The Adviser gives no warranty as to the performance or profitability of the Fund or any part thereof, nor any guarantee that the investment objectives, expectations or targets described in this presentation and anywhere else will be achieved, including without limitation any risk control, risk management or return objectives, expectations or targets. The Fund may suffer loss of principal, and income, if any, may fluctuate. The value of Fund investments may be affected by a variety of factors, including, but not limited to, economic and political developments, interest rates and issuer-specific events, market conditions, sector positioning, and other factors.



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Morningstar Rating

★★★★★



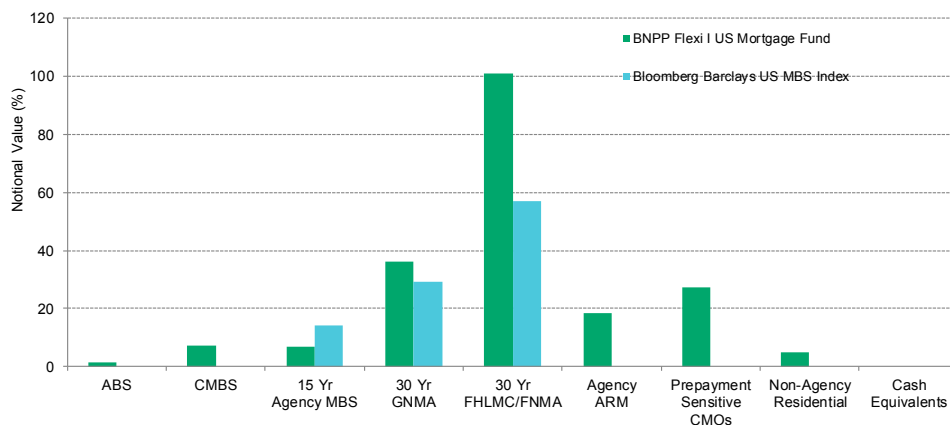
**Global Investor/ISF
Investment Excellence
Awards**

global isf
AWARDS

2012

"Highly Commended US Fixed
Income Manager (MBS)" 2012

Sector Breakdown



Characteristics

| | Fund | Index |
|------------------------|-------|-------|
| Duration (years) | 4.19 | 4.57 |
| Yield (%) | 4.48 | 3.28 |
| Convexity | -4.80 | -1.68 |
| Average Credit Quality | AA+ | AAA |

*Average credit quality using the Bloomberg Barclays Index methodology (Ratings Agencies: Moody's, Fitch, S&P): middle of two rating agencies, lower of three.

Portfolio Review

The Institutional share class of the BNP Paribas Flexi I US Mortgage Fund returned +0.91% in January, outperforming the Bloomberg Barclays US MBS Index by 11 bps. Overweight positioning in 30-year versus 15-year MBS contributed to performance. The portfolio had a long bias to the MBS sector entering the month. We took profits on that trade and it added 1bp. Spreads on hybrid arms were wider in January leading that sector to underperform. Positions in prepayment sensitive CMOs earned good carry, prices performed in line with hedges, and the position added to performance. Our allocation to CMBS underperformed due to wider spreads on limited activity. The portfolio added tactically to Inverse IO positions in January.

Market Review

A number of dovish speeches from FOMC officials helped boost investor appetites for risk assets in January. The FOMC meeting on January 29th confirmed the Fed's dovish turn and demonstrated that in fact that the Fed has adopted the bond market view that economic growth was moderating and further rate hikes were not necessary at this time. Patient was the key word from the Fed's statement as they removed any bias to raise rates in the near term. Additionally, the balance sheet run-off is no longer on auto-pilot and will be adjusted if warranted by economic conditions. US treasury yields fell during the month with the 10-year yield closing at 2.63%. The yield curve flattened with 2-year/10-year spread moving in to 17 bps. Risk asset performance was strongly positive reversing the underperformance seen in December. After falling 9% last month, the S&P 500 was up 8% in January. Excess returns for fixed income asset classes were strongly positive for US high yield +4.08%, US investment grade credit +1.83% and EM USD +2.68%. Structured products also fared well with total returns for MBS +.79% for the month and excess returns for MBS +.32% and for CMBS +.48%.

The January prepayment report showed a small decline in aggregate FNMA 30 year speeds. Seasonal factors kept speeds low once again. The sharp drop in 10-year yields in December did not impact this report. The Mortgage Bankers Association Refinancing Index bounced off its recent low though it remains near the lowest levels we have seen since 2000. Barring a sustained move lower in US rates near term prepayment speeds should continue to be well behaved. Longer term we will need to see if the recent rally has further legs which could spark some refinancing activity.

All data is as of January 31, 2019, unless otherwise noted. This overview is delivered solely as reference material with respect to the BNP Paribas Flexi I US Mortgage Fund (the "Fund"). It does not constitute an offer to sell or a solicitation of an offer to buy any interests in the Fund. This document is being submitted to you for the purpose of review only and does not constitute, nor contain an offer or invitation to subscribe for, or to purchase, shares in the Fund in any jurisdiction nor shall there be any sale of the shares of the Fund in any jurisdiction in which such offer, solicitation or sale would be unlawful. Any such offering will occur only in accordance with the terms and conditions set forth in the prospectus pertaining to the Fund. Potential investors are strongly urged to review carefully the prospectus and other documents pertaining to the Fund and to discuss any prospective investment with their legal, tax, accounting and other advisers prior to investing. This overview is confidential and may not be reproduced or transferred, in whole or in part, to any other party without the express written consent of BNPP AM. A prospectus of BNP Paribas Flexi I US Mortgage Fund and the latest financial reports are available at the registered office of the Fund: 1, boulevard Haussmann, 75009 Paris, France, RCS Paris 319.378.832.



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Outlook

The Fed's dovish turn has been well received by the financial markets. The Fed has at least for now adopted the bond market's view that both US and global growth have been moderating, US inflation is and will remain slightly below target and there is therefore no need for additional rate hikes. With the Fed on hold and patient we may very well have seen the peak in US 10-year yields last October at 3.25%. The Fed's balance sheet policy is no longer on "auto-pilot" with an indication that adjustments to the pace of run-off could be made if downside risks play out. Risk asset performance recovered most if not all of the late 2018 underperformance. Spreads on investment grade corporates are back to levels we last saw in mid- November.

After a very tough 4th quarter which saw a big rates rally and more curve flattening, mortgage coupon swaps recovered somewhat in January. Markets see the Fed at the end or very near to the end of the tightening cycle which was supportive of higher coupon MBS. Specified pool premiums also moved higher in January. There is widespread concern across the investor community over a significant increase in the weighted average coupons (WAC) of mortgage pools originated in 2018. The adverse WAC characteristic of the 2018 generic production pools has driven up the pay up premiums investors for non-generic specified pools including lower loan balance, lower WAC, and seasoned pools.

Given the strong performance in the MBS sector we reduced our tactical overweight to FNMA 4.0% versus UST. We are now neutral and would use any underperformance as an opportunity to move back to an overweight. The February payroll report was solid with a gain of 304k jobs, an increase to 63.2% in the labor participation rate and a year on year gain in average hourly earnings of 3.2%. So the US economic expansion continues. We do however think that volatility in financial markets will remain for the time being. Worldwide economic data indicates some slowing. Corporate leverage remains high and despite decent 4th quarter earnings many companies are lowering guidance for future revenue and earnings. January though was "risk on" and investment grade and high yield credit spreads moved sharply tighter. MBS spreads also tightened but lagged the move in credit. MBS valuations remain near the wider end of the recent range with FNMA 4.0% at +106. MBS prepayments remain very well behaved and carry in the sector has improved. Primary origination rates have moved lower but are not low enough to spark a refinancing response. We favor higher coupons over lower coupons and see opportunities in prepayment sensitive sectors.

| | | |
|--|--|--|
| Institutional Share Class Charges | Management Fee (maximum): 30 bps Other Fees (maximum): 17 bps | Subscription fee (maximum): 0 bp Redemption fee (maximum): 0 bp |
| Country registrations | Registered in Austria, Belgium, France, Ireland, Germany, Luxembourg, the Netherlands, Singapore, Spain, Switzerland, UK | |
| ISIN codes | I Cap: LU1080341909; I H EUR CAP: LU1268551253; I H GBP CAP: LU1268551337; I H CHF DIS: LU1416548458; I DIS: LU1080342030 | |

BNP Paribas Flexi I US Mortgage Fund Performance Institutional Cap, Net of Fees (USD)

| | Total Return (%) | | |
|---|------------------|---------------------------------|-------|
| | Fund | Bloomberg Barclays US MBS Index | Net |
| Calendar Years | | | |
| 2018 | -0.72 | 0.99 | -1.71 |
| 2017 | 2.44 | 2.47 | -0.03 |
| 2016 | 2.31 | 1.67 | 0.64 |
| 2015* | N/A | N/A | N/A |
| As of January to January 12-month return | | | |
| 2018 | 1.26 | 3.00 | -1.73 |
| 2017 | 1.46 | 1.31 | 0.15 |
| 2016 | 0.84 | 0.34 | 0.50 |

*2015 was a partial year (July 23 to December 31)

Source: BNPP AM, Bloomberg; data as of January 31, 2019

Past performance or achievement is not indicative of current or future performance.

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The performance data, as applicable, reflected in this material, do not take into account the commissions, costs incurred on the issue and redemption and taxes.

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