FINALISED ON 5 JULY 2021

GENERAL FUND

CARDIF LUX VIE

V-shaped recovery, supportive Central Banks, inflation and Covid Variant threat.

The rapid distribution of vaccines in Western countries has, as hoped, helped activity bounce back strongly after a first quarter that was still being hampered by lockdowns, some stricter than others, particularly in the old continent. Global growth is therefore expected to pass the 6% mark following a contraction of more than 3% in 2020. The upturn will be driven mainly by the United States and China, where GDP growth of close to 7% and 9% respectively is anticipated. The equivalent forecast for the eurozone is in the region of 5%, due to the services sectors opening up again more slowly in Europe.

Western consumers, whose savings levels have soared during lockdown (€500 bn for Europe alone), helped along by unprecedented support measures from the state and central banks, will obviously be at the heart of this recovery. As a result of this strong demand, the majority of businesses are experiencing a significant increase in their order books, creating tensions in supply chains, especially in sectors that are heavily dependent on semi-conductors (e.g. the automotive industry) and raw materials (construction, capital goods). These tensions are inevitably reflected in producer prices and we are likely to also see an acceleration in prices in the services sectors, such as hospitality.

Thus, the combination of these factors and the base effects on raw materials (oil prices are up by more than 80%, for example, with iron ore increasing by 115% over one year) are pushing up inflation in the Western economies, bringing le back to or above 2% for the time being. This is the case in the US where headline inflation rose to 5% in June compared with just 2% in the eurozone right now. Despite these figures, which are finally in line with or even well above the targets set, the central bankers are maintaining their accommodating stance, stressing that this price development is only transitory and that the full impact of the crisis has yet to be absorbed.

The Fed, while adopting a slightly tougher tone than expected, has repeated its plea for patience, but could use the occasion of the Jackson Hole Symposium to announce a reduction in its asset purchase programme at the end of August. It is, however, unlikely that the Fed will raise its key rates before the end of 2022 unless the labour market has returned to its 2019 year-end level. Regarding the ECB, the status quo prevails with a very steady pace of asset purchases, even if some hawks do not believe that it will be necessary to use up the remaining €350bn of the envelope between now and the end of March 2022. Ultimately, the balance sheets of the main central banks have continued to grow at more than 77% of GDP in the eurozone, compared with 36% for the Fed and 133% for the Bank of Japan.

Politically, the recent elections in Europe (general election in the Netherlands and regionals in France) have taken nothing away from the positivity towards European construction generated by the agreement on the European recovery plan, which was ratified at the end of May. The upcoming German elections in the autumn are not likely to cloud this vision, while the French elections in April will remain a real test of the European Union's cohesiveness.

The geopolitical environment has also been quite calm since the election of Joe Biden, with the US president renewing a positive dialogue with the country's historical allies and adopting a considerably more readable diplomatic line than his predecessor. China, however, remains the main source of tension and President Xi Jinping's imperialist speech commemorating the centenary of the Chinese Communist Party will have done nothing to change Westerners' perceptions of how hard it will be to extract concessions from the Asian giant.

For the remainder of 2021, and probably much of 2022, the macro and micro economic outlook remains positive. There are three main elements that could jeopardise this outlook:

- An overly brutal response by the central bankers to actual and anticipated inflation figures that could appear to be out of control: as mentioned above, this risk is perceived as low, particularly in the eurozone where the output gap remains very significant.
- The inability of the Democratic majority to quickly pass a large-scale recovery plan dedicated to infrastructure and reducing inequality (improved access to health and education, and support for low wages).
- A new wave in the pandemic that cannot be countered by intensifying vaccination programmes, resulting in renewed strict lockdowns: this risk is particularly relevant in countries where only a small proportion of the population has been vaccinated (Asia, Australia etc.) and even in Europe and North America from this autumn. However, unlike at the beginning of the year, there is now sufficient industrial capacity to manufacture the vaccines needed to significantly limit the impact that a new wave of coronavirus would have on growth in the Western economies.

Risky asset classes extended on their "rally" that began at the end of 2020. Western equity markets, especially in Europe, rose almost continuously until mid-June, only held back by limited corrections (between -1% and -2%). They are now consolidating at a flat level, swinging around their recent highs. Excluding dividends, the main European indices rose by an average of 14%, while the S&P 500 gained around 15% and the Asian and emerging indices underperformed significantly, at only +7.7% for the Topix, +6.5% for the MSCI EM and +2.9% for the Chinese leading index These divergences reflect the sectoral composition of the indices, with cyclical and value stocks outperforming technology stocks. They also mirror the delay in vaccination in the Asian region, the relative slowdown in Chinese growth and governance issues in China.

Credit spreads held up well against the rise in risk-free rates, which were generally stable or even slightly down for investment grade securities and down by more than 60 bp in the high yield segment, which benefited from the absence of any increase in default rates.

In terms of government bonds, rates were buoyed by the rise in inflation expectations across the Atlantic, which led to a sharp rise in US long-term rates until the end of March and, by contagion, a marked increase in European long-term rates. Subsequently, US long rates eased by around 30 bp in the wake of the Fed's comments, while European long rates fell by 10 to 15 bp. In the end, the US 10-year rate rose by 55 bp to 1.47%, while the German, Italian and French 10-year rates moved by 30 to 45 bp. Within this rise in rates, it should be noted that the French 10-year has been touched by a relative disaffection, with a spread increase of around 10 bp compared with Germany ahead of the 2022 elections.

Emerging market debt is suffering slightly due to the rise in the dollar and inflation as well as ineffective vaccination policies. The Eurodollar has been very volatile, ending down 3% at 1.185 after having recovered to almost 1.23 in late May.

Across the portfolio, we took advantage of the increase in risk-free rates to increase our interest rate sensitivity by favouring investments in European (highly rated) and US government bonds (due to their relative attractiveness). We stayed away from the secondary credit market due to the low credit spreads and continued to focus on the primary market in order to benefit from potential issue premiums. We also continued to switch certain credit exposures for ESG reasons or due to cost factors.

In terms of equities, we reduced our exposure as markets expanded while maintaining a beta of more than 8%. In addition, we continued to diversify internationally, with the proportion of our investments outside Europe now accounting for more than 10%.

In terms of other diversifications, we made a new investment in a US private debt fund and marginally increased our exposure to healthcare real estate in Germany. Finally, we took advantage of the attractive level of the dollar (above 1.20) to increase our exposure to the US currency, which is now close to 4%.

Looking to the rest of the year, as long as we have not experienced a significant increase in investment grade credit spreads, we will maintain a defensive bias on the asset class by favouring very selective investments in the primary market. Similarly, we will keep our distance from high yield and emerging market debt until a real correction has been observed. On equities, although the recovery cycle is certainly only just beginning, we prefer to remain cautious while maintaining our position at around 8%. Indeed, the most recent phase of the rise appears to be a little too rapid and the valuation of the markets is now at an all-time high. Any significant decline could be used to gradually increase our exposure.

With regard to real estate, given the current uncertainty about future occupancy rates in the office segment, we want to remain close to 3% of overall exposure. We will, however, be looking closely at the healthcare segment, particularly through our partnership in the retirement home sector in Germany.

In terms of other diversifications, we will continue to analyse positive impact funds in the field of energy transition, and we plan to implement our first investment in sustainable forest management.

It is also important to note that we have further increased our positive impact investments in the first half of the year, mainly through the purchase of green bonds. In addition, our ESG-compliant selection methodology and our ability to communicate our exposure to sustainability risks allow us to categorise our General Fund under Article 8 of the SFDR[1].

François LUCCHINI
Director of Asset Management

KEY TAKEAWAYS

- Strong upturn in activity in the major Western economies
- Spread of variants is a concern but vaccination programs should be sufficient
- Cautious positioning following the sharp rise in risky asset classes
- Central banks will remain supportive without dissipating the effects of the crisis

1 - Regulation (EU) 2019/2088, the Sustainable Finance Disclosure Regulation (SFDR), introducing new sustainability-related disclosure obligations: https://cardifluxvie.com/our-responsibility.

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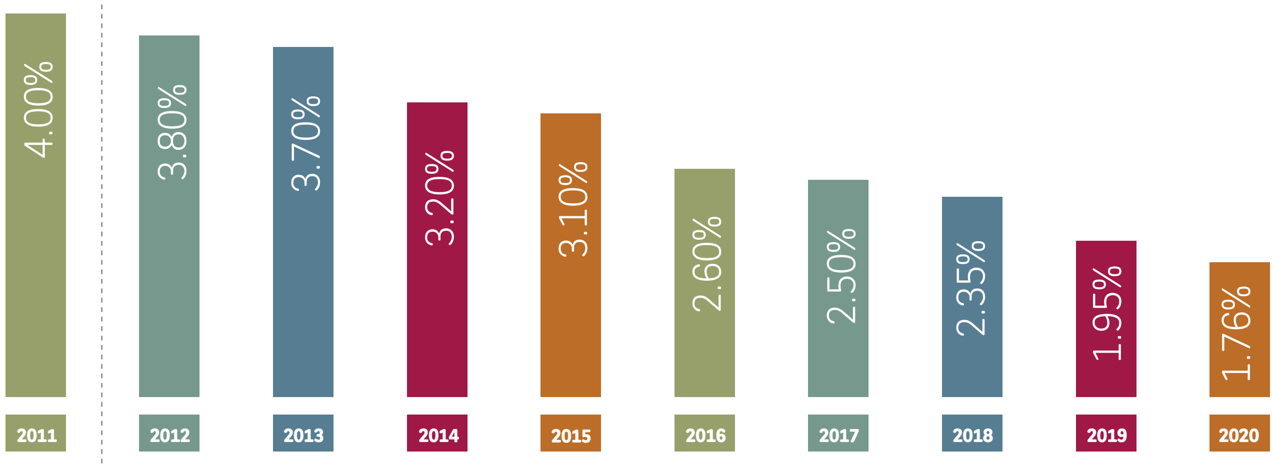
HISTORY OF THE GENERAL FUND'S GROSS RETURNS[1]



MANAGEMENT OF THE CARDIF LUX VIE'S GENERAL FUND AS AT 30/06/2021

Capitalisation of the General Fund in market value: 9.9 billion EUR.

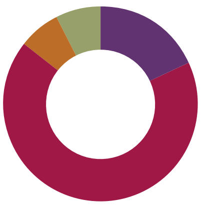
COMPOSITION OF THE CARDIF LUX VIE'S GENERAL FUND

- Governmental Bond & Similar: **24.5%**
- Corporate bonds: **55.6%**
- Equities & Similar: **9.6%**
- Real Estate: **3.1%**
- Short Term/Cash Flow: **3.3%**
- Diversification Assets[2]: **3.9%**

COMPOSITION OF THE EQUITIES COMPARTMENT

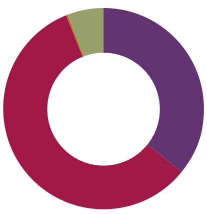
Share risk exposure around 8% (beta).

EQUITIES COMPARTMENT DETAIL BY GEOGRAPHIC ZONE



- France: **18.3%**
- Europe excluding France: **67.4%**
- United States: **7.0%**
- Developed countries outside Europe: **7.3%**

DETAILS OF THE EQUITY SECTOR BY NATURE.



- Shares: **36.2%**
- Equity funds: **57.8%**
- Bonds indexed on the stock market: **0.4%**
- Private capital and infrastructure: **5.7%**

1- The performances reported up to the end of 2011 relate to the General Fund offered by Cardif Lux International (part of BNP Paribas Cardif assets). Since 2012 the General Fund has been under the direct management of Cardif Lux Vie. Details of past returns provide no guarantee or limitation of future returns. Returns do not take account of the management costs for investment instruments.
2- Emerging debt, high yield and alternative Funds.
3- Median rating of the 3 agencies Standard & Poor's, Fitch and Moody's.

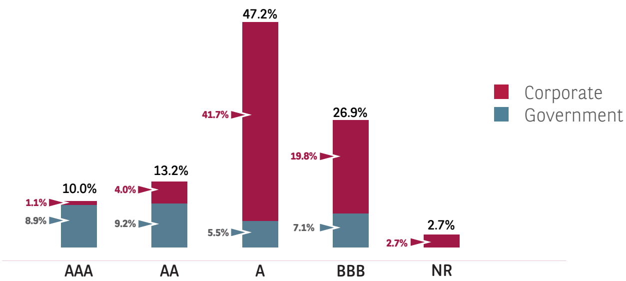
COMPOSITION OF THE BOND COMPARTMENT

The global sensitivity to the rates of our portfolio is close to **4,9**.

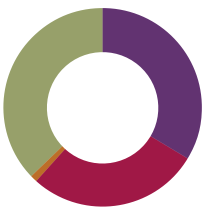
BOND COMPARTMENT DETAIL BY RATING

The bond portfolio has an excellent quality rating with an average rating of "A".

Rating[3] of the Government State Bonds in portfolio at 30/06/2021:
AAA : Luxembourg, Germany, Netherlands, USA and European agencies
AA : Finland, France, Belgium, Austria and Czech Republic
A : Slovakia, Spain, Poland and Chile
BBB : Italy and Mexico



BOND COMPARTMENT DETAIL BY ISSUERS



- Financials: **33.7%**
- Governments & Similar: **28.1%**
- Covered Bonds: **1.2%**
- Non financials: **37.0%**

REPAYMENT SCHEDULE OF THE BOND COMPARTMENT

- < 5 years: **38.2%**
- 5 to 7 years: **15.1%**
- 7 to 10 years: **26.3%**
- > 10 years: **20.4%**