

CARMIGNAC ABSOLUTE RETURN EUROPE: LETTER FROM THE FUND MANAGERS

14/04/2025 | DEAN SMITH, JOHAN FREDRIKSSON

Over the first quarter of 2025, **Carmignac Absolute Return Europe** (A EUR Acc share class) realized a negative performance of -1.99%.

MARKET ENVIRONMENT

The beginning of 2025 has been a turbulent period for investors, as markets continuously recalibrated in response to geopolitical and macroeconomic events.

January commenced on a positive note, with significant inflows into European equities from global investors aiming to diversify away from the correctional markets in the US. A pivotal moment came with the German government's unexpected announcement of a €500 billion program to enhance defence and infrastructure. This initiative was widely regarded as a catalyst for European growth, anticipated to further bolster substantial inflows into European equities, especially in defence stocks and cyclical/infrastructure sectors. Consequently, European equities outperformed US equities during the quarter for the first time in many years with the Stoxx 600 outperforming the S&P500 by 10%.

US equities had experienced an exuberant rally following the election of President Trump, but soon faced potential headwinds and distortions due to the "America First" policies. Despite Trump being in office for only a few weeks, the growing uncertainty around the US government's policy agenda and its impact on economic data, coupled with frequent aggressive headlines from the administration, began to weigh on market sentiment, driving US markets into correctional territory. Concurrently, increasing skepticism about artificial intelligence (AI) and especially Data Centre expansion, prompted more cautious commentary from the industry, applying pressure on US tech stocks, including the "Magnificent 7". This triggered a substantial de-grossing event among hedge funds. Quality stocks were generally sold off while shorts were aggressively covered, causing substantial pain for most investors and exacerbating the de-grossing. Additionally, the rapid spike in volatility severely impacted investors, impairing their ability to hedge portfolios, and thus further accelerating the market correction.

During the first two months of the quarter, European equities surged and managed to retain most of their gains, in contrast to US equities which entered negative territory. The top-performing sectors in Europe included Banks, driven by positive earnings revisions and accelerated buybacks and dividends, as well as Insurance, Telecoms, Utilities, and Construction. However, sectors such as Travel and Leisure, Media, Retail, and Autos lagged behind.

PERFORMANCE REVIEW

After a strong start to the year, the portfolio encountered significant challenges in February and March due to intense market rotational forces and unprecedented levels of de-grossing, which triggered heavy selling pressure. While the main positive contributors were Financials, particularly banks, and our industrial shorts, these gains were more than offset by losses in Technology (AI sell-off), Consumer Discretionary, and Healthcare.

In such unfavourable and unpredictable market conditions, we strived to remain as disciplined as possible within the fund's restrictions and rules to manage risk. Accordingly, we reduced long exposure in Industrials, Healthcare, Consumer Discretionary, Technology, and Materials sectors potentially vulnerable to tariffs. Additionally, we added short positions in some cyclical European names which, in our view, had rallied excessively following the German stimulus program announcement. We also initiated short positions in European names likely to be impacted by a deteriorating US consumer environment and economy.

We reduced our gross exposure from a high of 130% in January to around 100%, and our net exposure from the mid-20s to 10-15% by the end of March, fluctuating daily based on our various option hedges. Despite our best efforts to protect the portfolio, it was frustrating to watch our January profits turn into a 2% loss by the end of the quarter due to the macroeconomic and geopolitical-induced sell-offs and rotations. The last few weeks of March were among the most challenging since the onset of Covid-19, characterized by unpredictable headlines and numerous policy reversals, primarily from the US administration. Unfortunately, these challenges have persisted into early April and have worsened since Trump's 'Liberation Day.'

Q1 Contributors

Q1 Detractors

Long Euronext – upgrades from elevated market trading volumes	Long Amazon – concerns about slowing economic growth
Long Deutsche Telekom – earnings beat from their US mobile business	Long Infineon – ongoing effects of Industrial inventory correction
Long Fresenius – positive earnings drive rerating	Long TSMC – profit taking in the AI theme
Long Piraeus Financial – positive earnings report	Long Zealand – partnership with Roche didn't convince investors
Long Intesa Sanpaolo – strong net interest and fee income	Long UCB – suffered from de grossing and perceived risk from upcoming tariffs

WHAT IS OUR OUTLOOK FOR THE COMING MONTHS?

Currently, the world is experiencing a period of unprecedented uncertainty. The tariff-based policy decisions introduced by the new US administration have embedded an element of 'Trump mania' into the global capital markets psyche, creating significant headline risk with dramatic consequences on a daily basis. There is a palpable risk of an all-out trade war, forcing business leaders, corporates, and investors to operate in a landscape with zero visibility, and we have yet to witness the economic ramifications in hard data and corporate earnings.

The Q1 reporting season is expected to be dominated by a loss of confidence in the earnings outlook for 2025. It would be almost surprising if management teams do not issue warnings about future prospects or significantly downplay their expectations. In these circumstances, our primary focus must be on capital preservation until this geopolitical turmoil subsides, while simultaneously retaining the ability to be reactive and opportunistic with the opportunities that will undoubtedly arise in the coming months.

Despite the greater level of uncertainty compared to previous crises, we know that they eventually come to an end. When they do, there will be incredible opportunities. For example, many of our fundamental positions, especially long ones, are now vastly oversold?even in a recession scenario, particularly within the healthcare sector?as they have suffered greatly from the widespread de-grossing. These positions should offer enormous upside potential once the geopolitical landscape stabilizes.

Source: Carmignac, Bloomberg as of 31/03/2025.

CARMIGNAC ABSOLUTE RETURN EUROPE A EUR ACC

(ISIN: FR0010149179)

SFDR - Fund Classification** :

Article **8**



Recommended
minimum
investment horizon



MAIN RISKS OF THE FUND

RISK ASSOCIATED WITH THE LONG/SHORT STRATEGY: This risk is linked to long and/or short positions designed to adjust net market exposure. The Fund may suffer high losses if its long and short positions undergo simultaneous unfavourable development in opposite directions. **EQUITY:** The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization. **INTEREST RATE:** Interest rate risk results in a decline in the net asset value in the event of changes in interest rates. **CURRENCY:** Currency risk is linked to exposure to a currency other than the Fund's valuation currency, either through direct investment or the use of forward financial instruments.

The Fund presents a risk of loss of capital.

*Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. **The Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 is a European regulation that requires asset managers to classify their funds as either 'Article 8' funds, which promote environmental and social characteristics, 'Article 9' funds, which make sustainable investments with measurable objectives, or 'Article 6' funds, which do not necessarily have a sustainability objective. For more information please refer to <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>.

FEES

Entry costs : 4,00% of the amount you pay in when entering this investment. This is the most you will be charged. Carmignac Gestion doesn't charge any entry fee. The person selling you the product will inform you of the actual charge.

Exit costs : We do not charge an exit fee for this product.

Management fees and other administrative or operating costs : 2,20% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : 20,00% max. of the outperformance if the performance is positive and the net asset value exceeds the high-water mark. The actual amount will vary depending on how well your investment performs. The aggregated cost estimation above includes the average over the last 5 years, or since the product creation if it is less than 5 years.

Transaction Cost : 0,74% of the value of your investment per year. This is an estimate of the costs incurred when we buy and sell the investments underlying the product. The actual amount varies depending on the quantity we buy and sell.

PERFORMANCE (ISIN: FR0010149179)

Calendar Year Performance (as %)	2016	2017	2018	2019	2020
Carmignac Absolute Return Europe	+8.9 %	+14.6 %	+4.4 %	-1.3 %	+5.2 %

Calendar Year Performance (as %)	2021	2022	2023	2024	2025
Carmignac Absolute Return Europe	+12.6 %	-6.4 %	+0.0 %	+3.6 %	-2.0 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Absolute Return Europe	+0.9 %	+2.8 %	+2.6 %

Source: Carmignac at 31 Mar 2025.

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

Marketing communication. Please refer to the KID/KIID, prospectus of the fund before making any final investment decisions. This document is intended for professional clients.

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The Funds' prospectus, KIDs, NAVs and annual reports are available at www.carmignac.com/en, or upon request to the Management Company. Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The French investment funds (fonds communs de placement or FCP) are common funds in contractual form conforming to the UCITS or AIFM Directive under French law.

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- **In the United Kingdom:** the Funds' respective prospectuses, KIIDs and annual reports are available at www.carmignac.com/en-gb, or upon request to the Management Company, or for the French Funds, at the offices of the Facilities Agent at BNP PARIBAS SECURITIES SERVICES, operating through its branch in London: 55 Moorgate, London EC2R. This document was prepared by Carmignac Gestion, Carmignac Gestion Luxembourg or Carmignac UK Ltd. FP Carmignac ICVC (the "Company") is an Investment Company with variable capital incorporated in England and Wales under registered number 839620 and is authorised by the FCA with effect from 4 April 2019 and launched on 15 May 2019. FundRock Partners Limited is the Authorised Corporate Director (the "ACD") of the Company and is authorised and regulated by the FCA. Registered Office: Hamilton Centre, Rodney Way, Chelmsford, Essex, CM1 3BY, UK; Registered in England and Wales with number 4162989. Carmignac Gestion Luxembourg SA has been appointed as the Investment Manager and distributor in respect of the Company. Carmignac UK Ltd (Registered in England and Wales with number 14162894) has been appointed as a sub-Investment Manager of the Company and is authorised and regulated by the Financial Conduct Authority with FRN:984288.
- **In Switzerland:** the prospectus, KIDs and annual report are available at www.carmignac.com/en-ch, or through our representative in Switzerland, CACEIS (Switzerland), S.A., Route de Signy 35, CH-1260 Nyon. The paying agent is CACEIS Bank, Montrouge, Nyon Branch / Switzerland, Route de Signy 35, 1260 Nyon.
- **In Spain :** The Funds are registered with the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores) under the following numbers: Carmignac Sécurité 395, Carmignac Portfolio 392, Carmignac Patrimoine 386, Carmignac Absolute Return Europe 398, Carmignac Investissement 385, Carmignac Emergents 387, Carmignac Credit 2027 2098, Carmignac Credit 2029 2203, Carmignac Credit 2031 2297, Carmignac Court Terme 1111.

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For Carmignac Portfolio Long-Short European Equities: Carmignac Gestion Luxembourg SA in its capacity as the Management Company for Carmignac Portfolio, has delegated the investment management of this Sub-Fund to White Creek Capital LLP (Registered in England and Wales with number OCC447169) from 2nd May 2024. White Creek Capital LLP is authorised and regulated by the Financial Conduct Authority with FRN : 998349.

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