QUARTERLY REPORT

01.11.2022

Carmignac Emergents: Letter from the Fund Managers

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Published
November 1, 2022

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+3.2%

Relative performance of Carmignac Emergents A EUR Acc

versus its reference indicator MSCI Emerging Markets NR Index.

20.3%

Of the current portfolio

is invested energy transition and renewable industries.

72.0%

Exposure of Fund

to companies aligned with SDGs and sustainable themes.

Carmignac Emergents[1] was down –2.39% in the third quarter, compared with a –5.63% decline in its reference indicator. [2]Year-to-date, the fund has delivered a performance of –16.83%, versus –15.44% for its indicator. During the third quarter, emerging-market equities continued the slide that started in early 2021. They underperformed their developed market counterparts by a large margin in what is looking more and more like a capitulation by investors in the main Asian markets – China, South Korea, and Taiwan.

What happened in emerging markets in Q3 2022?

After a surprising rebound in Q2, Chinese stocks changed course this summer and resumed their downward trend, undermined by the effects of Beijing's zero-Covid policy. This policy is standing in the way of any real economic recovery because it's sapping consumer and business confidence and preventing the stimulus to have the intended effect on the economy. The government could start to ease this policy after the Communist Party Congress in mid-October, but we doubt it will be revoked before winter is over. Our Chinese holdings (37% of the Fund's assets at 30 Sept. 2022) are oriented mainly towards non-cyclical sectors and long-term growth themes. The performance of Chinese stocks in the coming months will be shaped largely by the outcome of negotiations under way in Hong Kong between the US Securities and Exchange Commission (SEC) and the Chinese market regulator, which has been asked to provide the SEC with access to Chinese companies' audit papers. A preliminary agreement was reached in August – rather unexpectedly, since analysts still believed New York-listed Chinese companies would have to start delisting in 2023. We think a final agreement could be announced in December, which would restore investor confidence in Chinese equities after two bleak years for this asset class. Barring such an agreement, Chinese stocks will probably remain under pressure until next June, when Alibaba is expected to join the Stock Connect programme, enabling investors in mainland China to buy its shares listed in Hong Kong. Chinese households have built up considerably more savings than those in the United States, which will provide new investor base for the Chinese companies listed in Hong Kong.

A positive surprise in the third quarter came from Latin America. Our Brazilian holdings (13% of the Fund's assets) scored early gains ahead of the first round of presidential elections, with most polls pointing to a Lula victory. Investors seemed happy with this expected result, given that his choice for vice president, Geraldo Alckmin coming from a centrist party. But what really helped investors sentiment is the expectations regarding the regional elections, that pointed the likelihood of a right-wing majority in the Congress. The Congress is a powerful institution in Brazil and will likely block any attempt by the new elected President to walk back the privatisation of **Eletrobras** – a key reform of the Bolsonaro government. Our Mexican investments (5% of the Fund's assets) also contributed to our outperformance in Q3. Mexican companies are benefitting from a structural trend towards nearshoring. With geopolitical tensions high between the US and China, and with firms around the world reconfiguring their global supply chains, Mexico is the country that stands to see the biggest increase in exports to regional markets. The International Bank for Reconstruction and Development estimates that Mexican exports could swell by $35.3 billion over the next three years. We hold **Banorte** in our portfolio; the rising interest rates are a boon to this Mexican bank since most of its loan book consists of variable-rate issues, and it's in talks to acquire Citigroup's Banamex subsidiary at a low valuation.

Adjustments and current positioning

We stepped up our exposure to South Korea (16% of the Fund's assets) in the third quarter, now that valuations (measured by Price/Earnings ratios) in the country have become very attractive after an abysmal 18 months. South Korean stocks were the first to price in a sharp global recession – and we believe they'll be the first to bounce back. We also increased our exposure to Brazil by buying stock in **Eletrobras**, Latin America's biggest power utility company. 98% of the electricity it produces comes from renewable sources – specifically hydro, solar, and wind power – making it one of the world's leading renewable energy suppliers and helping to give Brazil the second-highest country rating for its energy mix. What's more, corporate governance at Eletrobras is now excellent thanks to changes made when it was privatised. Our analyses and the company's most recent earnings releases show that it's priced very attractively, offering a return of 13% (after inflation), or some 18% nominally, over the lifetime of its concessions.

We're still cautious on India since valuations in the country appear stretched and its economy is highly vulnerable to rising energy prices. Both its stock market and its currency could fall – but that would give us attractive entry points for shoring up our Indian holdings.

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Socially responsible investment is central to our approach

Since its inception in 1997, Carmignac Emergents has combined what we consider our emerging-market DNA since 1989 with our commitment to strengthening our credentials in socially responsible investment. In welding together those two areas of expertise, we aim to add value for our investors while having a positive impact on society and the environment.

Classified as an Article 9 fund under the Sustainable Finance Disclosure Regulation (SFDR)[4] and was awarded France's SRI label in 2019 and Belgium's Towards Sustainability label in 2020[5]

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As an Article 9 Strategy, the Fund will invest mainly in shares of emerging companies that have a positive outcome on environment or society and derive the majority of their revenue from goods and services related to business activities which align positively with SDGs. This sustainable objective will be measured and monitored by the percentage of revenues aligned with UN Sustainable Development Goals (SDGs)[6] .

Our portfolio is currently structured around 4 major socially responsible investment (SRI) themes that are central to our process:

Fund positioning as of 30/09/2022

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As a reminder, our socially responsibility approach is based on three pillars:

- **Invest selectively and with conviction**, giving priority to sustainable growth themes in underpenetrated sectors and countries with sound macroeconomic fundamentals.
- **Invest for positive impact**, favouring companies that deliver solutions to environmental and social challenges in emerging markets and reducing our carbon imprint by at least 30% relative to the MSCI Emerging Markets Index. Our sustainable objective is: >50% Fund's AUM invested in companies with >50% revenue derived from goods and services positively aligned with at least 1 of 9 targeted United Nations Sustainable Development Goals.
- **Invest sustainably** by consistently incorporating environmental, social and governance (ESG) criteria into our analyses and investment decision.

[1]Carmignac Emergents A EUR Acc (ISIN : FR0010149302). * Risk Scale from the KIID (Key Investor Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations. Performances are net of fees (excluding possible entrance fees charged by the distributor). Performance in euros as of 30/09/2022.

[2] Reference indicator: MSCI EM NR USD (Reinvested net dividends rebalanced quarterly). From 01/01/2013 the equity index reference indicators are calculated net dividends reinvested. Carmignac, Bloomberg, company data, EM Advisors Group, CICC, JPM Research, 30/09/2022.
Carmignac, Company data, 30/09/2022. Carmignac's portfolios are subject to change at any time.

[3]The proprietary ESG system START combines and aggregates market leading data providers ESG indicators. Given the lack of standardisation and reporting of some ESG indicators by public companies, not all relevant indicators can be taken into consideration. START provides a centralised system whereby Carmignac's proprietary analysis and insights related to each company are expressed, irrespective of the aggregated external data should it be incomplete. For more information, please refer to our website.

[4] The EU Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 "lays down harmonised rules on the provision of sustainability-related information with respect to financial products". For further information, see https://eur-lex.europa.eu/eli/reg/2019/2088/oj.

[5]Carmignac Emergents and Carmignac P. Emergents both obtained the French and Belgian SRI labels. https://www.lelabelisr.fr/en/ ; https://www.towardssustainability.be/ ; https://www.febelfin.be/fr

[6]50% of the Fund's AUM* is invested in companies that derive more than 50% of their revenues from business activities that are positively aligned with at least 1 of the 9 Sustainable Development Goals selected for this Fund For more information please visit https://www.un.org/sustainabledevelopment/fr/objectifs-de-developpement-durable.

Carmignac as at 30/09/2022. [1]Carmignac Emergents A EUR Acc (ISIN : FR0010149302). Reference indicator: MSCI EM NR USD) (Reinvested net dividends rebalanced quarterly.

Carmignac Emergents

Grasping the most promising opportunities within the emerging universe

Discover the fund page

Carmignac Emergents A EUR Acc

ISIN: FR0010149302

Lower risk Higher risk

1	2	3	4*	5	6	7

Recommended minimum investment horizon

Main risks of the Fund

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.

EMERGING MARKETS: Operating conditions and supervision in "emerging" markets may deviate from the standards prevailing on the large international exchanges and have an impact on prices of listed instruments in which the Fund may invest.

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.

DISCRETIONARY MANAGEMENT: Anticipations of financial market changes made by the Management Company have a direct effect on the Fund's performance, which depends on the stocks selected.

The Fund presents a risk of loss of capital.