CARMIGNAC PORTFOLIO PATRIMOINE EUROPE: LETTER FROM THE FUND MANAGERS

16/01/2024 | JACQUES HIRSCH, MARK DENHAM

+2.60% Performance of the Fund in the quarter vs +5.54% for its reference indicator[1] (A EUR Share class).	**+2.07%** Performance of the Fund in 2023 vs +9.54% for its reference indicator.	**+5.67%** Annualised Performance of the Fund over 5 years vs +5.06% for its reference indicator.

Over the quarter, ***Carmignac Portfolio Patrimoine Europe*** *A EUR Acc posted a positive performance of +2.60% (A EUR share), below its reference indicator (+5.54%). The fund ended the year with a performance of +2.07%, outperforming its reference indicator[1] (+9.54%).*

MARKET ENVIRONMENT

Just like a thrilling roller coaster ride, the stock market year has reached its exhilarating finale after giving investors a few heart-stopping moments. In the aftermath of a tumultuous 2022 marked by the war in Ukraine and surging energy prices, the markets entered 2023 with unwavering confidence, propelling numerous stock market indices to unprecedented heights before being grounded after the summer by soaring sovereign yields. However, as inflation subsided and Western economies demonstrated resilience, Central Banks optimism paved the way for a bright end to the year.

All in all, the majority of European assets experienced a positive performance, with only a few exceptions observed in the energy sector and specific commodities. The stock market was dominated by a narrow leadership, primarily driven by the US and its highly valued 'technology' giants. In Europe, there was more sectoral dispersion. While growth stocks had a slight edge, value stocks, including Italian and Spanish banks and French industrial stocks, held their ground. On the other hand, defensive sectors like Utilities, Staples, and Healthcare posted poor returns. European credit markets, both investment grade (IG) and high yield (HY), also performed well in 2023. At the same time, long yields fell considerably, with the German 10-yr yield easing by -85bp to 2% and the US 10-yr yield falling by -70bp to 3.88%, benefiting from expectations of monetary easing in 2024, preventing a third consecutive year of declines.

HOW DID WE FARE IN THIS CONTEXT ?

In 2023, the fund delivered a positive absolute performance, but below its reference indicator. Overall for the year, our cautious exposure to risky assets and modified duration tactical management explain the Fund's relative underperformance.

Despite a positive start to the year for our quality/growth equities, the fund suffered from its bond component. Specifically, the increase in rates in February (due to our long positions in UK and non-core debt such as Greece and Spain) and the high volatility of short rates in March following the banking crisis had a detrimental effect on the fund. Subsequently, the Fund's positioning reflected a less optimistic economic outlook, with limited exposure to equities and positive modified duration. Although this scenario was slowly unfolding in Europe, investors focused more on the resilience of US growth and this positioning didn't pay off.

After the summer, we kept a positioning reflecting a less optimistic economic outlook due to the growing effects of monetary and fiscal tightening on the real economy and especially a long duration. Nevertheless, the stickiness of inflation led European central banks to keep a hawkish tone leading to a negative dynamic on the rates front. In such a context our exposure to sovereign bonds and to equity proved a drag. On our equity bucket our performance was also affected by some idiosyncratic stories such as Lonza or Adyen. However, from November this positioning finally paid off benefiting both the equity and bond components of the portfolio. Our corporate bond convictions were also rewarded in good conditions for risky assets. The only blot on the copybook was our risky asset hedging in both equity and credit. These instruments explain the Fund's lag behind its reference indicator over the end of year rally. In the previous two months, we had taken a cautious approach to these asset classes and introduced hedging with derivatives (options and futures), which had a negative impact in a generally bullish environment.

OUTLOOK

After a particularly favorable end to the year for both equity and fixed income markets, we are approaching 2024 with a measured positioning in terms of both interest-rate risk and equity risk. Indeed, while the positive correlation between equity and bond prices has been favorable in recent months, expectations seem particularly optimistic on the disinflation front, as well as in terms of future rate cuts and corporate earnings expectations. The main vulnerability lies in the contradiction between an aggressive rate-cutting cycle in the US this spring and a benign economic growth trajectory. Given this complex landscape, it is difficult for us to form a predetermined view on the market's overall expected performance for 2024.

Although inflation has fallen sharply in recent months, coming close to the central bankers' target, it remains under upward pressure from secular trends (military conflicts, ageing populations, energy transition, relocation of production chains) and cyclical trends (the US economy is resisting the interest-rate shock well). The first part of the year is likely to be characterized by the possibility of the US economy not landing, while the European economy oscillates between stagnation and recession.

In our portfolio, the current uncertainties highlight the importance of actively managing both interest rate risk and equity style risk. In our equity portfolio, we aim to diversify our holdings in the short term by incorporating more cyclical sectors alongside our long-term quality/growth focus. We are therefore trying to anticipate a no-landing scenario by tactically investing in Stoxx 600 Bank and Stoxx 600 Basic Resources futures. Additionally, we have implemented options as a form of protection against alternative macro scenarios. These options are currently priced attractively due to the low volatility in the markets, making them a valuable addition to our portfolio construction. This is particularly advantageous as the carry of our credit portfolio enables us to offset the cost of their premium. About credit, we also have some tactical protection to guard against any widening of credit spreads following the sharp tightening of index valuations. Regarding sovereign bonds, we believe that the market has already priced in the possibility of central bankers implementing rate easing measures in 2024. As a result, we have decided to adopt an active duration management approach, particularly on long rates, which are likely to suffer from high issuance volumes. Overall, our strategy takes into account the uncertainties in the market and aims to optimize our risk exposure while capitalizing on potential opportunities for growth and diversification.

[1]Reference Indicator: 40% STOXX Europe 600 (Reinvested Net Dividends) + 40% ICE BofA All Maturity All Euro Government + 20% ESTER capitalized. Quarterly Rebalanced. Until 31/12/2021, the reference indicator was 50% STOXX Europe 600, 50% BofA Merrill Lynch All Maturity All Euro Government Index. The performances are presented using the chaining method.

SFDR - Fund Classification** :

Article 8

LOWEST RISK — HIGHEST RISK

1	2	3*	4	5	6	7

Recommended minimum investment horizon 3 YEARS

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. **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. **CREDIT**: Credit risk is the risk that the issuer may default.

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 : 1,80% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : 20,00% when the share class overperforms the Reference indicator during the performance period. It will be payable also in case the share class has overperformed the reference indicator but had a negative performance. Underperformance is clawed back for 5 years. 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 : 0,67% 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.

ANNUALISED PERFORMANCE (ISIN: LU1744628287)

Calendar Year Performance (as %)	2018	2019	2020	2021	2022	2023
Carmignac Portfolio Patrimoine Europe	**-4.8 %**	**+18.7 %**	**+13.9 %**	**+9.5 %**	**-12.7 %**	**+2.1 %**
Indicateur de référence	-4.8 %	+16.4 %	+2.4 %	+10.2 %	-11.0 %	+9.5 %

Annualised Performance	3 Years	5 Years	Since launch
Carmignac Portfolio Patrimoine Europe	**+1.3 %**	**+5.1 %**	**+4.2 %**
Indicateur de référence	+1.9 %	+3.6 %	+3.5 %

Source: Carmignac at 30 Apr 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).