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CARMIGNAC PORTFOLIO PATRIMOINE EUROPE: LETTER FROM THE FUND MANAGERS

18/04/2024 | JACQUES HIRSCH, MARK DENHAM

+4.06% Performance of the Fund in the 1st quarter vs +3.03% for its reference indicator[1] (A EUR Share class).	**+5.63%** Annualised Performance of the Fund over 5 years vs +4.14% for its reference indicator.	**+7.31%** Volatility of the Fund over 5 years vs +9.2% for its reference indicator.

*To begin the year, **Carmignac Portfolio Patrimoine Europe** achieved a positive quarterly performance of +4.06% (A EUR share), surpassing its reference indicator (+3.03%).*

EUROPEAN MARKETS REVIEW

Resilient economic data has brought a sense of optimism to investors as they embrace the arrival of spring in the first quarter of 2024. European markets have experienced steady growth during this period, building on the positive momentum from the end of 2023. This growth has been driven by the anticipation of interest rate cuts by central banks on both sides of the Atlantic.

What is particularly encouraging is that this momentum has continued even as it became evident that expectations for rate cuts were too high. This is due to the strength of the US economy and a slower decline in inflation. Investors have rightly recognized that despite these challenges, the overall trend is towards declining rates, with inflation now less than half of what it was a year ago. Additionally, there have been promising signs of improvement in economic indicators such as the PMI manufacturing data and sentiment indicators. Initially, the market was led by sectors and stocks related to secular themes like artificial intelligence and obesity. However, in March, there was a broadening of performance to include strong showings from cyclical areas such as banks and autos.

In bond markets, interest rates have risen, with European sovereign bonds outperforming their US counterparts. This difference can be attributed to less favorable macroeconomic data in Europe, which has also led to a depreciation of the euro against the dollar. Similarly, credit markets have benefited from supportive macroeconomic conditions throughout the quarter, mirroring the positive trends seen in equities.

HOW DID WE FARE IN THIS CONTEXT?

In the last quarter, the fund achieved a positive performance, outperforming its reference indicator.

During the first two months, the fund experienced significant gains from its strategic selection of high-quality businesses, particularly in sectors such as artificial intelligence and obesity. Notably, Novo Nordisk and ASML, two long-term convictions, saw impressive growth of over 25% and were the main contributors to the fund's success in equities. Recognizing the recent performance and the need for increased diversification, we made the decision in late February to take profits on some of our long-term positions and diversify our equity exposure through futures and options. This strategic move has proven to be beneficial.

In the face of a manufacturing bottoming globally, new opportunities for diversification have emerged. To capitalize on this, we maintained a high equity exposure while diversifying our performance drivers with more cyclical indexes such as Euro Stoxx Banks, Stoxx 600 Auto, and Footsie. Additionally, we added exposure to key commodities like Gold, Silver, and Copper, which further supported the fund's overall performance. These commodities are expected to benefit from the gradual recovery of the manufacturing industry and the tight supply/demand dynamics in certain markets.

Regarding bonds, the volatility in sovereign interest rates led us to adopt a cautious approach with a modified low duration throughout the quarter. Our investment in the corporate bond market performed well, benefiting from a significant carry and narrower credit spreads. All credit segments, including CLOs, contributed positively to the overall performance of the fund.

OUTLOOK

The European economy continues to be sluggish, although there is a gradual recovery underway. This recovery can be attributed to a slight improvement in manufacturing and an increase in real incomes, which is a result of higher wages and lower inflation. However, the past two years of economic stagnation have negatively impacted cyclical inflation in the eurozone. In contrast, we anticipate that the US economy will remain resilient. Regarding central banks, markets are expecting a global easing cycle, although it is likely that the European Central Bank will pivot before the Federal Reserve, possibly in the early summer of 2024.

This environment should continue to offer a favourable cocktail for riskier assets, although we remain cautious about their valuation. Our analysis suggests that we are witnessing the early stages of a bubble in risky assets. The first phase sees prices steadily rising with low volatility. In the second phase, markets continue to climb, but volatility starts to increase, and we believe we are now entering this phase. The third and final phase is when the bubble eventually bursts. To mitigate the risk associated with this potential bubble, we have increased downside protections in both credit and equities through options and futures, with a particular focus on VIX. We are also diversifying our equity mix exposure as mentioned above via more cyclical sectors and commodities. In terms of our investment in the credit markets, the performance potential remains interesting through carry. We have also chosen to maintain a low modified duration on sovereign interest rates. While central banks have indicated their intention to pivot, we are exercising caution due to the strong resilience of growth and inflation data in the US. To hedge against the risk of a resurgence in inflation, we also have long breakevens both in Europe and the US.

Source: Carmignac, Bloomberg, data as of 31/03/2024. Performance of the A EUR Acc share class ISIN code: LU1744628287. Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. [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.

Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged. Performances are net of fees (excluding possible entrance fees charged by the distributor).

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).