

LETTER FROM EDOUARD CARMIGNAC

12.10.2018



EDOUARD CARMIGNAC'S LETTER

Edouard Carmignac writes on current economic, political and social issues each quarter.

Paris, October 12, 2018

Dear Investor,

Are you familiar with the notion of "antifragility"? According to Nassim Taleb, who brought us the potent but unsettling concept of the Black Swan, "Antifragility is beyond resilience or robustness. The resilient resists shocks and stays the same; the antifragile gets better. This property is behind everything that has changed with time...."

With the wisdom of hindsight, I can say that, over these past nine years, our global fund management has erred on the side of caution. After successfully weathering the crises of 2002–2003 and 2007–2008 while preserving the value of the wealth you entrusted us with, we gave

precedence to the imperative of managing risk. In so doing, we underestimated the extent to which relentless monetary easing by central banks would impact asset values.

The current gradual move away from lax monetary policy marks the end of that paradigm. Following in the Fed's footsteps, the European Central Bank and even the more skittish Bank of Japan are preparing financial markets for several turns of the screw. Moreover, their determination has been heightened by resurgent inflation – a force that had been dormant for over a decade.

This new state of play makes for a very different investment environment. Bond markets have long been buoyed by the downward trend in interest rates. But investing in them today requires an active approach to both the yield curve and the choice of bonds. Moreover, with liquidity dwindling and inflation edging up, a more differentiated approach to equities is now needed. How attractive they are to investors will depend on the growth prospects of individual companies and their ability to handle rising costs.

This means that it will take more than judicious responses to macroeconomic trends to be able to benefit fully from the return of the business cycle. What is also needed is the most efficient approach possible to selecting stocks and bonds. For that reason, I am delighted to have **David Older** taking over management of **Carmignac Investissement** and the **Carmignac Patrimoine** equity portfolio. Nearly four years ago, I recruited him based on his outstanding career in the US, working in the complex field of technology, where the standards for success are exceedingly high. Appointed head of our Equity team in early 2017, David has been a key contributor to global fund management at Carmignac, as portfolios under his watch usually tend to outperform. As for my role, I now have a rich talent pool to draw on, along with more time. Both factors are crucial in that they allow me to focus on shaping the compelling investment convictions that are essential to long-term performance.

I trust that this renewed vitality will make us even more antifragile.

Yours truly,



Edouard Carmignac

