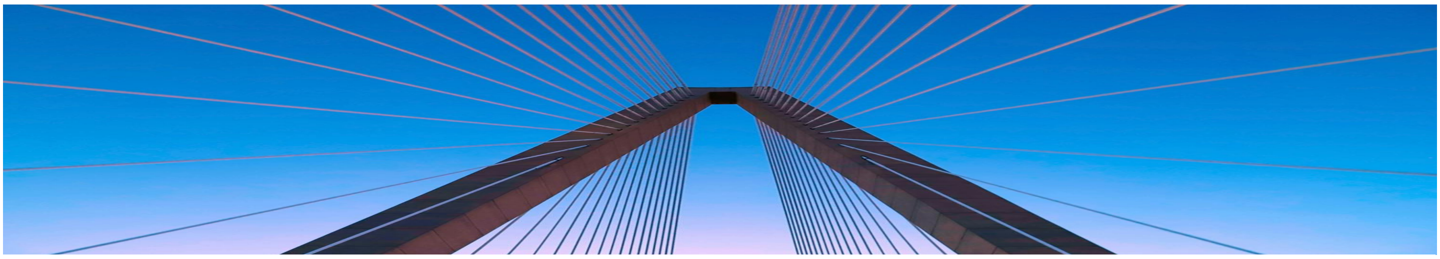
QUARTERLY REPORT

20.07.2022



European Long Short Equity: Letter from the Fund Manager

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+2.20%
Carmignac Portfolio Long Short European Equities performance in the 2nd quarter of 2022 for the F EUR Share class

+0.14%
Performance of the Fund
Year To Date

Our strategy, Carmignac Portfolio Long Short European Equities, had a performance of +2.20% during the second quarter, bringing the performance to +0.14% this year, in our F share class, net of fees.

Quarterly Performance Review

The second quarter was one of the worst quarters for equities in recent history with the Eurostoxx 50 losing 12%, while the Nasdaq plunged 23%. As flagged in our last two letters, the combination of an asset price bubble, spiraling inflation and rising rates provided a difficult set-up for asset prices. We focused most of our work on the short side this quarter and found many new names, particularly in our aggressive accounting sub-bucket.

As seen in the table below, **we generated positive alpha in our Alpha Shorts bucket, while our Core Longs suffered from the market backdrop.**

YTD ATTRIBUTION BY BUCKET	
CORE LONGS	-11.24
TRADING LONGS	-2.07
RELATIVE VALUE/SPECIAL SIT	-0.17
ALPHA SHORTS	+12.28
HEDGING	+3.13

Data as of 30/06/2022. Source: Carmignac, 30/06/2022.

The overall outlook for the market is unfortunately still very bleak, particularly for Europe. While most central banks have started to raise rates aggressively, the European base rate is still negative, while inflation is heading towards double digits and the price/wage spiral is in full swing. A collapsing currency is a positive for exporters, but obviously amplify the pressure from most input costs that are priced in USD.

The ECB, which is mandated to keep price stability, is sitting with an inflation at 9% and with negative interest rates at -50bps. Meanwhile, the European Economy, led by a hugely squeezed consumer and an unprecedented energy crisis, is heading into a deep recession. In addition, many of its member states are highly indebted and cannot afford to service their debt at a rate that would be adequate for the current rate of inflation.

The UK, our home base, is in a similarly miserable position. The already weak, post-Brexit, economy is suffering from serious staff shortages and a lack of skilled workers. The dysfunctional government, combined with a collapsing currency, have increased the upward pressure on a 40year high inflation rate. And while rents are rising, the combination of rising mortgage rates, higher building costs and squeezed incomes, make house buying the least affordable since 2006. Given the lack of a longer dated fixed mortgage market, rising floating rates will put more pressure on house owners in the UK than in Europe or the US.

What is our outlook for the coming months?

We do not expect a V shape recovery like we have gotten used to since the 2008 financial crisis. The inflationary forces are, at least partly, unlikely to go away quickly, so central banks are unlikely to bail us out in the short run. **The combination of rising rates and a recession will obviously help to bring down demand for goods and services and depress asset prices, but we are concerned that in recent history, all the zero rate policies and the money printing had a direct impact on asset prices, but there was no correlation with headline inflation. Thus, to assume that inflation will disappear or go back to 2%, only because we are reversing actions that did not influence inflation in the first place is not necessarily right.** As Powell keeps on reminding us, inflation is extremely complex, and many factors are outside of their control.

That said, every crisis provides opportunities and a lot of stocks have come down a long way and seen significant multiple compression. Puma, one of our top convictions over the last few years, is down more than 40% this year, while its fundamentals remain very strong. ASM International is also down 40%, Salesforce is back to its 2018 level and even a defensive play like Nestlé is down 15%.

Given the overall bearish set-up without much green shoots on the horizon, as we wait for the stabilization of long-term rates and recessionary fears, **we think the set-up for high quality businesses with strong structural drivers starts to look more favourable. We have a wish list of companies where the IRRs on a 3-year horizon with conservative assumptions start to look attractive and aim to build or increase positions here over the coming weeks and months.**

We still have a strong idea flow on the short side. The consumer discretionary and industrials sectors have been very good hunting grounds as the mixture of rising raw material prices, high inventories and fading demand from a squeezed consumer create a toxic combination.

Carmignac Absolute Return Europe A EUR Acc

ISIN: FR0010149179
Risk and Return Profile

Lower risk Higher risk

Recommended minimum investment horizon

1	2	3*	4	5	6	7

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.

Carmignac Portfolio Long-Short European Equities A EUR Acc

ISIN: LU1317704051
Risk and Return Profile

Lower risk Higher risk

Recommended minimum investment horizon

1	2	3*	4	5	6	7

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