

# CARMIGNAC PORTFOLIO INFLATION SOLUTION

May 2025



### STRUCTURAL REASONS FOR LONG-TERM INFLATION

Taking advantage of a long-term investment paradigm shift

THE END OF A VERY LOW INFLATION PHASE

MORE LONG-TERM FACTORS SUPPORTING INFLATION



ENERGY TRANSITION COST



PEAK GLOBALIZATION



LESS FRUGAL DEMOGRAPHY



FROM ECONOMIC
EFFICIENCY TO
ETHICS EVERYWHERE



DEATH OF THE PAX AMERICANA

INVESTMENT CONSEQUENCES

STRUCTURALLY HIGHER INFLATION & RATES

CYCLICALITY IN EQUITY
MARKETS

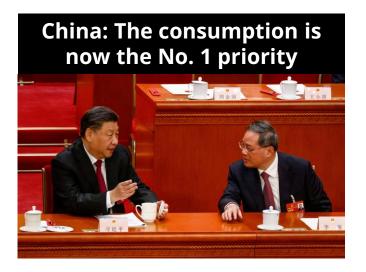
WINNERS OF THE PAST COULD BECOME LOSERS OF THE DAY



### TRUMP IS MAKING THE REST OF THE WORLD GREAT AGAIN





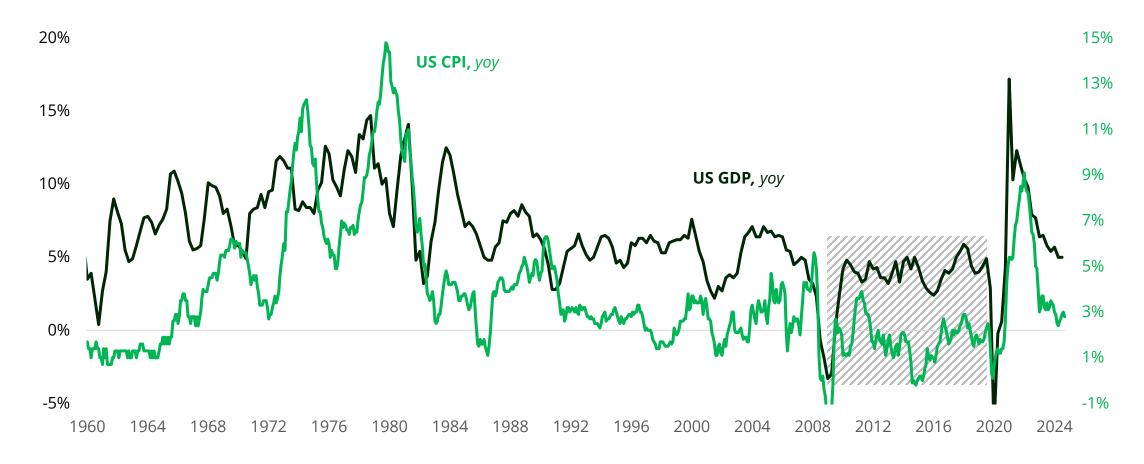


Source: Carmignac, Bloomberg, Financial Times, March 2025





### THE CYCLE IS BACK WITH A VENGEANCE



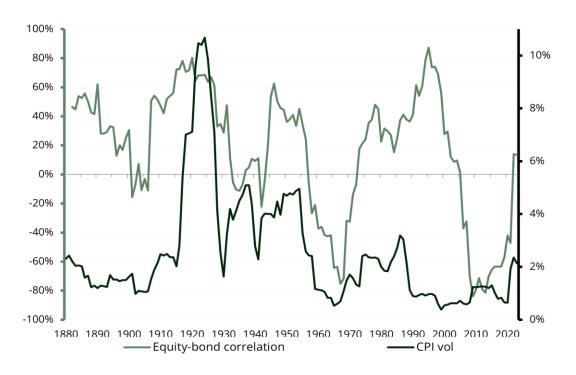
Sources: Carmignac, Bloomberg, March 2025



### **CORRELATION BETWEEN BONDS AND EQUITIES**

Structural negative supply shocks will push the bond-equity correlation into positive territory: Inflation has a significant impact on this correlation, the end of passive diversification?

#### **Bond-Equity correlations (10Yrs horizon)**



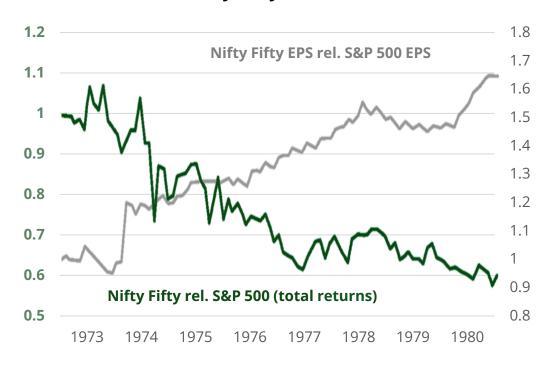
Source: Carmignac Bloomberg, S&P, Barclays, Bureau of labor statistics, October 2023



# THE WINNERS OF THE PAST BECOME THE LOSERS OF THE DAY

The primary impact of inflation on equities is their devaluation due to higher interest rates. High multiples are the biggest victims of the adjustment.

#### 1980's: Nifty Fifty vs S&P 500 index



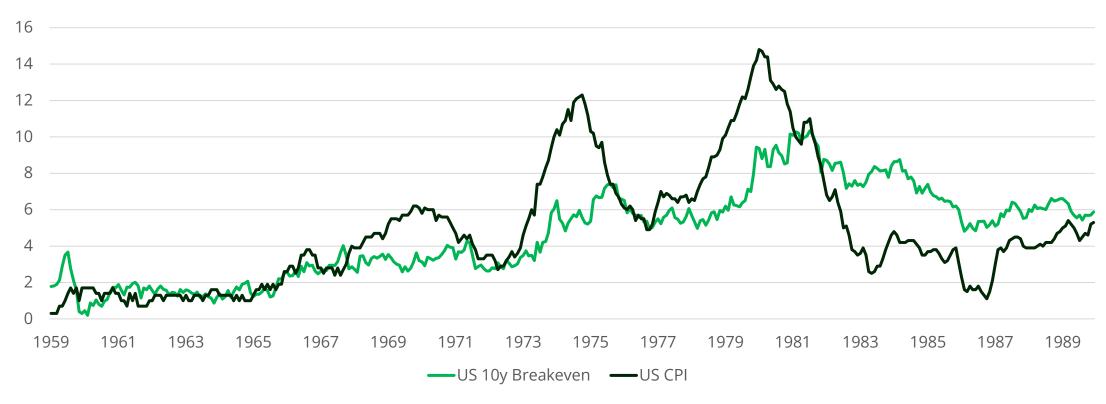
Source: Carmignac, Bloomberg, 2025



### IF ONE THING NEVER CHANGES: MASS PSYCHOLOGY

When inflation begins, the market believes it is transitory. As time goes on, the market starts to believe will never go away.

#### Breakevens pricing out transitory inflation



Source: BofA Global Fund Manager Survey, Bloomberg, 20/03/2023

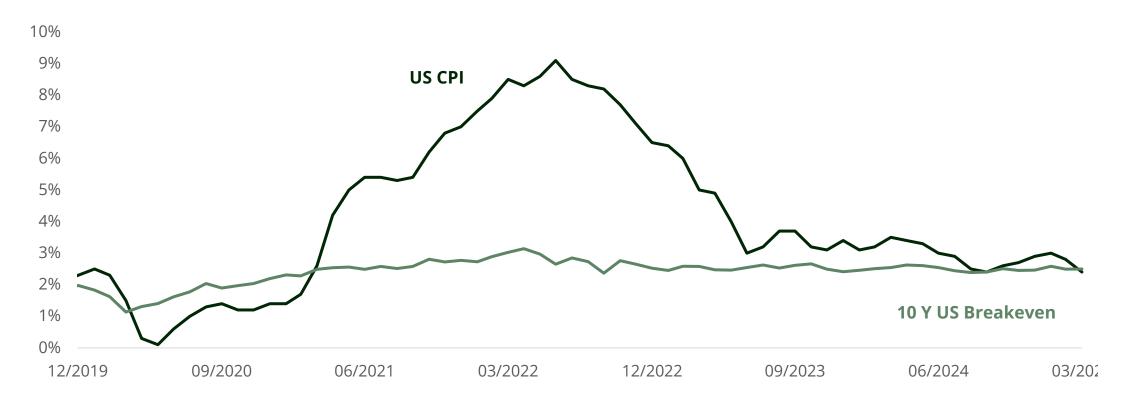






# INFLATION SETS TO CONTINUE BUT THE MARKETS DON'T BELIEVE IT

US inflation vs long term breakeven



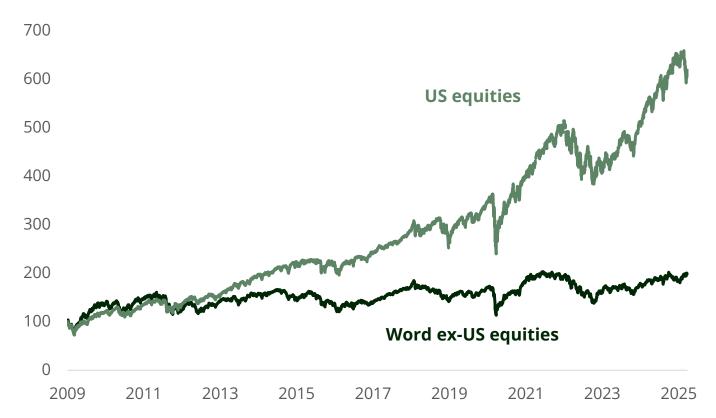
Source: carmignac, Bloomberg, 30/04/2025



### **EQUITY MARKET: THE GREAT ROTATION MAY HAVE**

**STARTED** 







#### **KEY TAKEAWAYS**

### Possible investment consequences:

- Underperformance of US dollar-denominated assets
- Resurgence of 'old economy ' sectors in Europe
- China could become investible again
- Outperformance of emerging countries

Performance of the US large-cap index (S&P 500) and a world equity index excluding the United States (MSCI AC World ex-US), in local currency, base 100 as of 01/01/2009. Past performance is not a reliable indicator of future returns. Source: Carmignac, 25/03/2025



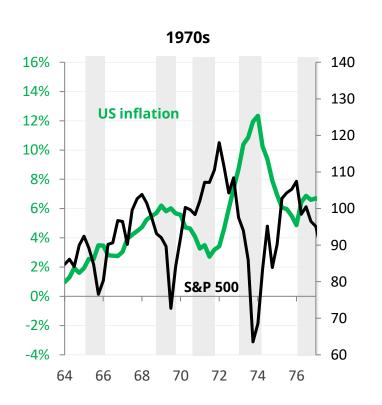
# MORE ECONOMIC CYCLICALITY AND A BETTER DISTRIBUTED TECHNOLOGY WOULD WEAKEN THE DOLLAR AND FAVOUR EMERGING MARKETS

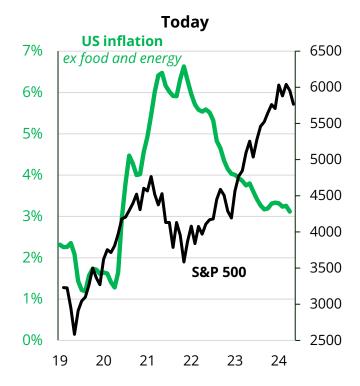


Sources: Carmignac, Bloomberg, 2025

### INFLATION IS THE COMPASS OF THE ACTIVE MANAGER

#### **US inflation and S&P 500 index**







#### **KEY TAKEAWAYS**

#### When inflation is back:

- It is cyclical
- It has an inverted correlation with the stock market
- It brings cyclicality in the economy and in the markets

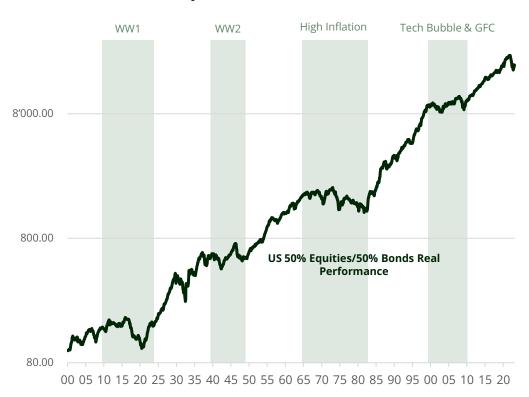
Source: Carmignac, Bloomberg, 25/03/2025



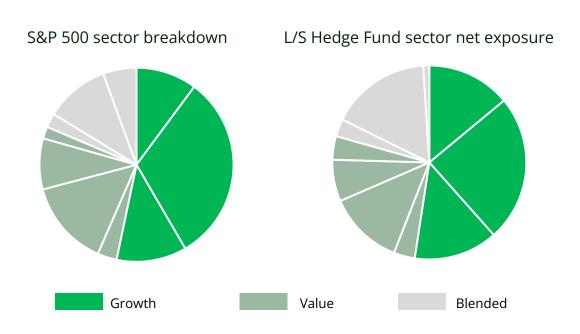


### A NEED FOR AN APPROPRIATE PORTFOLIO

### "Lost decades" of real performance are common for traditional balanced portfolio



The fund management industry remains overexposed to Growth stocks... it needs diversification...



Growth = Consumer Discretionary, Tech, Communication Services Value = Energy, Financials, Industrials, Materials Blended = Consumer services, Consumer staples, Health Care, Utilities

Source: Carmignac, Bloomberg, Goldman Sachs, Morgan Stanley Prime Brokerage, Jan 2025



### **OUR PHILOSOPHY**

#### **OBJECTIVES**

#### **BUILD A MULTI-ASSET PORTFOLIO THAT:**



Explicitely targets a return above Inflation (positive real return)



Offers diversification to a traditional balanced allocation



Takes advantage of a long-term investment paradigm shift

#### HOW?

#### **FLEXIBILITY**



Across all traditional asset classes



Across Inflation-linked instruments & various Commodities



Through a multi-asset global **active** management



### CARMIGNAC PORTFOLIO INFLATION SOLUTION

A multi-asset fund for investors looking for a solution to deliver long-term growth above inflation and diversifying their global allocation.



#### **Deliver Long-Term Capital Appreciation**

A beta component composed of various asset classes to deliver long term value and provide capital appreciation across all environments



#### **Hedge and Benefit from inflation**

Use of inflation swaps and commodities to help us to hedge and benefit from inflation



#### A truly active multi-asset management

Flexible approach to deliver alpha by managing exposures, identifying tactical opportunities and generate uncorrelated returns

#### Fund ID Card

- Inception Date: 15 December 2023
- AuM: € 35 m
- Reference Indicator: Euro HICP ex tobacco (interpolated into a daily quote).
- Portfolio managers: Frédéric Leroux, Christophe Moulin,
   Pierre-Edouard Bonenfant
- Main limits:

Equity Exposure Modified Duration

+100%

Commodities

)% +30%



### **FUND PERFORMANCE DRIVERS**

#### **INVESTMENT UNIVERSE/STRATEGIES**

**Equities** 

Regions/Country Sectors Styles

Currencies

#### Commodities

Energy Precious Metals Industrial Metals

#### Fixed income

Inflation swaps

Rates/Credit Regions/Country Duration

#### BETAS

IN SEARCH OF CAPITAL APPRECIATION

#### **INFLATION EXPOSURE**

IN SEARCH OF REAL PERFORMANCE

#### **ALPHAS & OVERLAY**

IN SEARCH OF PORTFOLIO ENHANCEMENT, CYCLE MANAGEMENT AND UNCORRELATED RETURNS

**DIRECTIONAL & RELATIVE-VALUE** 





### AN INVESTMENT PROCESS IN 3 MAJOR STEPS

1

#### CORE PORTFOLIO ALLOCATION

- Fix the core asset allocation to match our medium to long term vision
- Combine our vision with a global reasoning on expected returns, diversification and correlations
- It is the Anchor of the portfolio

2

#### INFLATION MANAGEMENT

- Determine the exposure to inflation swaps based on views and on the attractiveness and valuation of the inflation market
- Inflation swaps are a key and structural component of the portfolio. It is aimed to always represent a big part of the portfolio.

3

#### TACTICAL POSITIONING

- Manage the main exposures of the fund
- Define positions and trades on all asset classes based on top-down analysis and market dynamics concepts
- Directional or Relative-Value
- Conviction-based position sizing

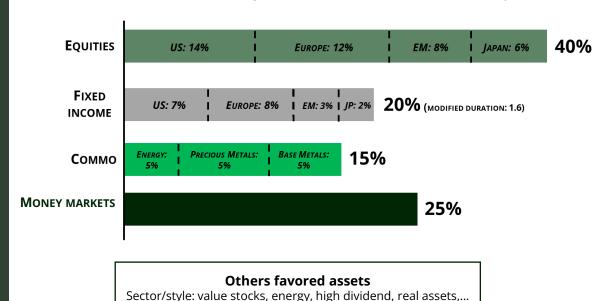


### **1** CORE ALLOCATION

What portfolio would you hold that would perform well across all environments?

#### What allocation is appropriate?

A diversified multi-asset allocation, doing well in inflationary environments, with volatility in line with traditional balanced portfolios



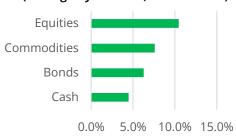
#### Inflation requires Commodities, not Duration







#### Real Performance (average by decades, 1960 to 2020)



Reference to certain financial instruments is for illustrative purposes. This is not intended to promote direct investment in those instruments, nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication. The portfolio may change without previous notice. Past performance is not necessarily indicative of future performance. Source: Carmignac, Bloomberg, 2023



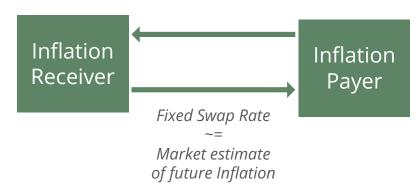


### **INFLATION SWAPS**

Hedge the portfolio against inflation surprises

#### How it works?

Realized Inflation

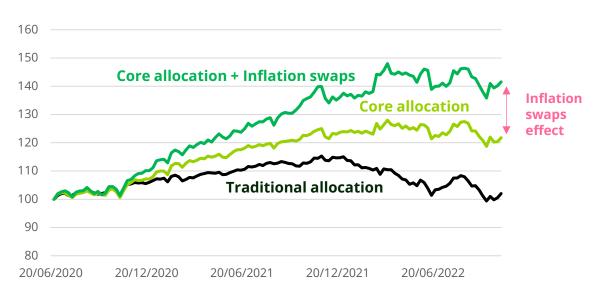


**Inflation Swap** = an Inflation-linked Bond without its duration (or nominal) component

→ Better hedging instrument than TIPs when Inflation grows

#### What it brings to the portfolio?

Stress test of our core allocation + our Inflation swaps target exposure versus a traditional allocation (40% Equity, 40% Govies, 20% Cash)



From 2020 to 2022

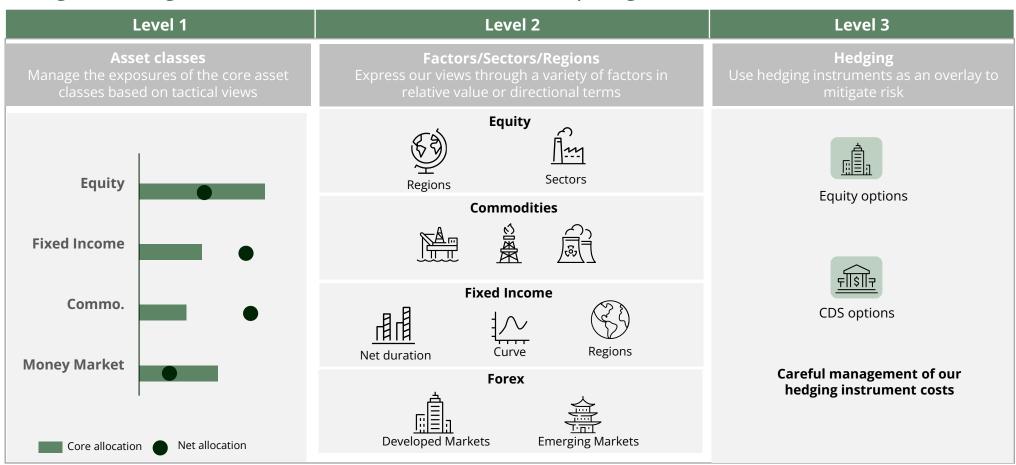
For illustration purposes only, Source : Carmignac, 2025





### TACTICAL ALLOCATION

Taking advantage of short to medium-term views: Alpha generation





### **TEAM: COMPLEMENTARY EXPERTISES**



**Frédéric LEROUX** specialist in cyclical analysis of the economy and markets



Christophe MOULIN specialist in market dynamics and optionality

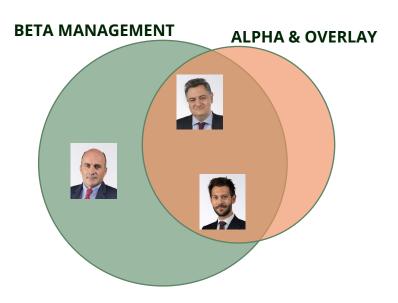


Pierre-Edouard BONENFANT specialist in asset allocation & quantamental market analysis

CORE ALLOCATION
+
INFLATION MANAGEMENT

CONSENSUS BETWEEN
THE 3 PORTFOLIO
MANAGERS

#### TACTICAL MANAGEMENT



Same global vision but different and complementary management styles and expertise

## CARMIGNAC PORTFOLIO INFLATION SOLUTION DIVERSIFIES YOUR RISKS

#### **Correlation matrix**

|                      | Traditional allocation* | C. Inflation<br>Solution |
|----------------------|-------------------------|--------------------------|
| 5y EU Breakevens     | -16%                    | 18%                      |
| EU 10y yield         | -42%                    | -8%                      |
| US 10y rates         | -36%                    | -4%                      |
| Commodities          | 5%                      | 45%                      |
| Equity Growth factor | 46%                     | 6%                       |
|                      |                         |                          |

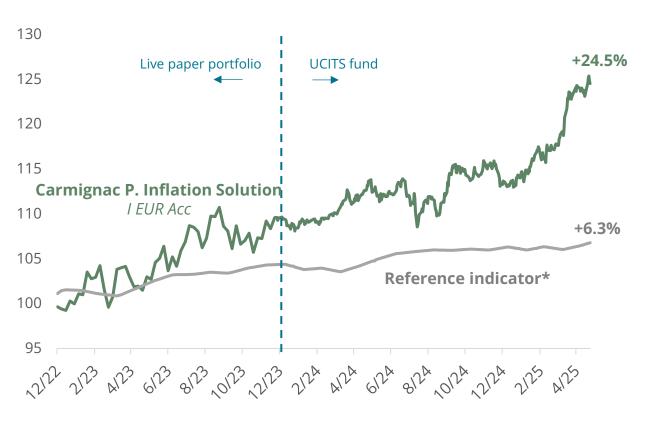
- A traditional diversified allocation tends to lose when breakevens rise, whereas C. Inflation Solution tends to gain
- A traditional diversified allocation tends to lose when interest rates rise, whereas C. Inflation Solution is insensitive.
- A traditional diversified allocation tends to be insensitive to commodities prices, whereas C. Inflation Solution tends to gain when commos rise
- A traditional diversified allocation tends to lose when growth loses, while C. Inflation Solution tends to be insensitive

<sup>\*40%</sup> equity + 40% govies + 20% cash Sources: Carmignac 30/01/2025, Bloomberg.



### PERFORMANCE SINCE LAUNCH OF THE PAPER TRACK

#### As of 05/16/2025:



#### **Key figures**

| Since launch paper track (12/09/2022) |        |  |
|---------------------------------------|--------|--|
| Total Return                          | +24.5% |  |
| Annualized Return                     | +9.4%  |  |
| Annualized Volatility                 | +7.8%  |  |
| Return/Volatility                     | 1.2    |  |
| Benchmark Return (TR)                 | +6.3%  |  |
| Benchmark Return (p.a.)               | +2.6%  |  |

| Since launch open-ended fund (12/15/2023) |        |  |
|---|--------|--|
| Total Return                              | +13.7% |  |
| Annualized Return                         | +9.4%  |  |
| Annualized Volatility                     | +5.7%  |  |
| Return/Volatility                         | 1.6    |  |
| Benchmark Return (TR)                     | +2.4%  |  |
| Benchmark Return (p.a.)                   | +1.7%  |  |

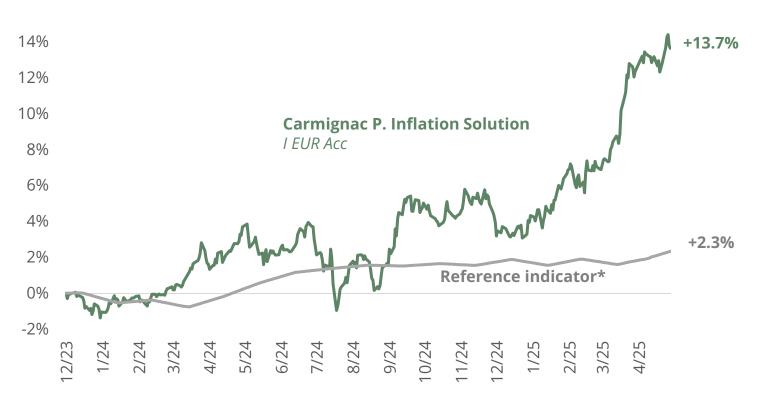
<sup>\*</sup>Reference indicator: Euro HICP ex tobacco (interpolated into a daily quote) which provides for an indicative inflation reference in the Eurozone. **Performance are net of fees (excluding possible entrance fees charged by the distributor). Past performance is not necessarily indicative of future performance.** The return may increase or decrease as a result of currency fluctuations. Source: Carmignac, Bloomberg, 05/09/2025



### PERFORMANCE OF THE STRATEGY

Carmignac Portfolio Inflation Solution

#### **Performance since launch**



#### **Key figures**

|                          | I EUR Acc | Reference<br>indicator |
|--------------------------|-----------|------------------------|
| 1 month                  | +0.4%     | +0.5%                  |
| YTD                      | +10.2%    | +0.5%                  |
| 2024                     | +3.24%    | +1.86%                 |
| Since<br>launch          | +13.7%    | +2.4%                  |
|                          |           |                        |
| Annualized<br>Return     | +9.5%     | +2.2%                  |
| Annualized<br>Volatility | +6.4%     | -                      |

\*Reference indicator: Euro HICP ex tobacco (interpolated into a daily quote) which provides for an indicative inflation reference in the Eurozone. **Performance are net of fees (excluding possible entrance fees charged by the distributor). Past performance is not necessarily indicative of future performance.** The return may increase or decrease as a result of currency fluctuations. Source: Carmignac, Bloomberg, 16/05/2025







### WHAT CAN WE EXPECT FROM THIS STRATEGY?

Assumptions based on internal models and current market levels – 5 to 10 years expected returns



#### Core allocation

|              | Expected Return (EUR) | Weights |
|--------------|-----------------------|---------|
| Equities     | 5.0%                  | 40%     |
| Fixed Income | 3.5%                  | 20%     |
| Commodities  | 6.4%                  | 15%     |
| Cash         | 2.9%                  | 25%     |
| Total        | 4.40%                 |         |



#### Inflation Basket

| Ex : 5Y-10Y inflation swap |      |
|----------------------------|------|
| Receive                    | Pay  |
| Inflation                  | 2.3% |



#### **Tactical Allocation**

| Estimated portfolio volatility of the total strategy    | 10 %                   |
|---|------------------------|
| Estimate of the risk budget allocated to tactical moves | 5%                     |
| Sharpe Ratio<br>(conservative assumption)               | 0.55                   |
| Expected return   | 5%*0.55 = <b>2.75%</b> |

Expected Return of the pocket: +4.4%

+

Expected Return of the pocket: Inflation - 2.3%

+

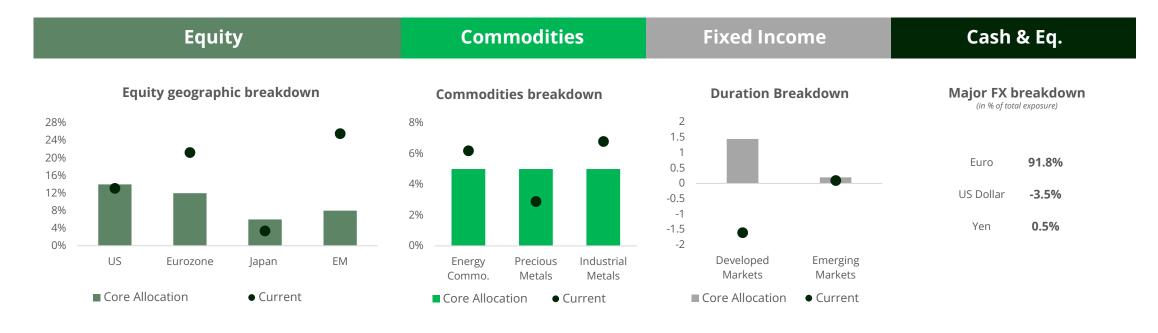
Expected Return of the pocket: +2.7%

#### **GROSS ANNUALIZED EXPECTED RETURN = INFLATION + 4.8%**

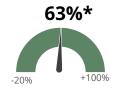
The Fund presents a risk of loss of capital. The scenarios presented are an estimate of future gross performance based on evidence from the past on how the value of this investment varies, and/or current market conditions and are not an exact indicator. What you will get will vary depending on how the market performs and how long you keep the Fund. Portfolio composition may change over time. **Past performance is not necessarily indicative of future performance.**Source: Carmignac, assumptions based on internal models and May's market levels, 2025



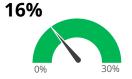
### **PORTFOLIO CONSTRUCTION**







**Current Commodities Exposure** 



**Modified Duration** 



Sensitivity to Inflation breakeven



<0 → When inflation expect. ↑, PnL ↑

\*including 12.9% of Materials and Energy. Portfolio composition may change over time. Source: Carmignac, 20/05/2025



### YTD 2025 - CPI'S PERFORMANCE ATTRIBUTION

in bps, as of 05/16/2025

| YTD 2024          |       | Benchmark* |
|-------------------|-------|------------|
| Equities          | +839  |            |
|                   |       |            |
| Fixed Income      | +176  |            |
|                   |       |            |
| Commodities       | +183  |            |
|                   |       |            |
| FX                | +79   |            |
|                   |       |            |
| Inflation         | +29   |            |
|                   |       |            |
| Others            | +36   |            |
| Gross Performance | +1342 | +45        |

<sup>\*</sup> Benchmark = Eurozone Harmonised Index of Consumer Prices (HICP) ex-tobacco

### PERFORMANCE AND FEES OVERVIEW

#### Carmignac Portfolio Inflation Solution

#### **Calendar Performance - I EUR Acc**

| Fund  | Ref. Indicator*                       |
|-------|---------------------------------------|
| n.a.  | n.a.                                  |
| 3.24% | 1.86%                                 |
| 9.37% | -0.13%                                |
|       | n.a.<br>n.a.<br>n.a.<br>n.a.<br>3.24% |

#### **Annualized Performance**

| (%)         | Fund  | Ref. Indicator* |
|-------------|-------|-----------------|
| 3 years     | n.a.  | n.a.            |
| 5 years     | n.a.  | n.a.            |
| Inception** | 9.54% | 1.32%           |

#### Table of fees

| One-off costs upon entry or exit                            |   |
|---|---|
| Entry costs   | We do not charge an entry fee.  |
| Exit costs  | We do not charge an exit fee for this product.  |
| Ongoing costs taken each year                               |   |
| Management fees and other administrative or operating costs | 1,15% of the value of your investment per year. This estimate is based on actual costs over the past year.  |
| Transaction costs   | 0,22% 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.  |
| Incidental costs taken under sp                             | ecific conditions   |
| 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. |

\*Reference indicator: Euro HICP ex tobacco (interpolated into a daily quote) which provides for an indicative inflation reference in the Eurozone. Performance are net of fees (excluding possible entrance fees charged by the distributor). Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations. **Table of fees:** Entry charges paid to distributors. No redemption fees. Conversion charges: this is the maximum that might be taken out of your money before it is invested / before the proceeds of your investment are paid out. Ongoing charges are based on the expenses for the last financial year ended. They may vary from year to year and do not include performance fees or transaction costs. Variable Management Charge: 20% of the outperformance once performance since the start of the year exceeds that of the reference indicator and if no past underperformance still needs to be offset.



### MAIN RISKS OF THE FUND

**COUNTERPARTY RISK:** The sub-fund may suffer losses if a counterparty defaults and is unable to meet its contractual obligations, especially in the case of derivatives traded OTC

**LIQUIDITY RISK:** The markets in which the sub-fund participates may be subject to temporary illiquidity. These market distortions could have an impact on the pricing conditions under which the sub-fund may have to liquidate, initiate or modify its positions.

**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







### **DISCLAIMER**

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**CARMIGNAC GESTION Luxembourg** City Link - 7, rue de la Chapelle - L-1325 Luxembourg Tel: (+352) 46 70 60 1 - Subsidiary of Carmignac Gestion. Investment fund management company approved by the CSSF. SA au capital de 23 000 000 € - RCS Luxembourg B67549

