

Second Quarter 2010

Economic outlook and investment strategy

I – Economic outlook

► In the United States, the economic recovery is confirmed

In the United States, economic growth has materialized and is turning into a sound recovery (growth of over 3% expected in 2010 and 2011). Recruitment resumed and corporate earnings (revised estimates of +27%) seem to be spurring companies towards a new cycle of investment. At the same time, even though it will take time for financial and non-financial companies, as well as for households, to pay down their debt, there is no doubt the deleveraging of the US economy is underway. The American economy seems to have triggered a virtuous circle fueled by a rise in profits, in investments and in employment rates, thus offsetting the effects of a falling private debt. Real American self-sustaining growth may no longer look so remote, especially as the current rebound seems to have already helped the budget deficit stabilize.

► With emerging markets enjoying accelerating growth, global activity is re-synchronising

Emerging countries' growth, which was already rather robust, is gaining a strong momentum: China is no longer the only one to see high trade activity; India (+8%) and Brazil (+7%) have recently joined. Over the past three months, global growth has indeed strengthened significantly: a close to 4% gain in 2010 (to be compared with 5% in the pre-crisis years) no longer seems beyond reach. As for stock markets, the Morgan Stanley Emerging Markets Index jumped 126%, the S&P 500 Index 76%, and the Eurostoxx 66% between their respective lows of October 2008 to March 2009 and their end of March 2010 levels. Equity markets have clearly endorsed the optimism we have been showing towards them since March 2009, when we anticipated that economic growth would return based on the implementation of highly accommodative fiscal and monetary policies and that such growth would not be curbed by inflation threats.

► Eurozone under heavy pressure

In Europe, the public deficits that ballooned in response to the crisis are now giving rise to unbearable situations in some Member States. The ECB has indeed been forced to maintain accommodating monetary policies. Greece aside, the market is no longer willing to accept such a drift in public finances: Portugal, Spain, Italy and even France are faced with the pressing necessity to pay down both their deficits and public debt in a context that has already turned deflationary due to the credit crunch and corporate deleveraging. The absence of common or even concerted policies makes it even more difficult. It prevents the implementation of a European economic mechanism that could lessen the negative effects that the upcoming fiscal retrenchment imposed by sovereign bond markets might create. Therefore, we believe that a continuing fall in the euro will be difficult to avoid.

► Emerging markets are shrewdly managing inflationary pressures

Strong growth is causing emerging countries to face inflationary pressures. While the Reserve Bank of India, despite an impressive record in terms of monetary policy, may be a little behind in tackling rising prices, we believe that the Chinese authorities are shrewdly dealing with the pressure. Even if they were reluctant to raise interest rates, China's authorities increased capital requirements by 100 basis points, took specific measures to prevent property speculation and demanded to the private sector a 40% cut on their lending. Such measures will probably be strengthened in the near future, without ruling out the possibility of a rise in key interest rates. However, as Australia and India have shown, moderate increases in key rates, provided the market considers them relevant, do not hamper equity markets. Besides, China's ultimate weapon against inflation risk is the revaluation of the yuan. With external pressures easing slowly, especially from the United States that wanted a Chinese decision in this respect, such decision should be made fairly soon. The revaluation of the yuan will represent an additional step towards global rebalancing, with China being obviously the leading player.

II – Investment strategy

I – International equities

► Exposure to assets denominated in dollars and emerging currencies

As nearly all the reservations we had about equity markets earlier this year have dissipated, we invested most of the cash and subscriptions that we have received over the past three months. In addition, our distrust in the euro currency has led us to hedge all our positions in Europe by buying the dollar equivalent: as a result, the entire Carmignac Investissement portfolio is exposed either to the dollar or to emerging currencies.

► The improving-living-standards-in-emerging-countries theme remains central

Rising living standards in emerging markets remains the main theme in our global management. Within Carmignac Investissement, exposure to this theme rose from 24.3% to 27.6% of the assets. In order to seize the opportunities created by the temporary weakness of the Chinese market, we increased all our existing Chinese holdings and set up a position in the car manufacturer Byd Co, which has developed an interesting lithium battery technology, and in Wynn Macao, which is particularly well-positioned to benefit from the gambling boom in Macao. We have started reinvesting in Indonesia, where we think improved outlook is confirmed, through the Astra International conglomerate and Bank Central Asia. In India, we added to the portfolio the leading property developer, DLF limited.

► US stocks have been reinforced

US growth was confirmed this quarter; this theme now represents 9.2% of the Carmignac Investissement portfolio. The position initiated in the final quarter of 2009 has been strengthened via a new stake in Delta Airlines; we believe that the firm's operating and financial leverage should favor strong market performance. The US/ UK banks (8.6%) theme now exclusively consists of American stocks after we sold our entire position in Barclays. The significant improvement in economic activity is enabling US banks to withstand future losses on commercial property while improving their profitability, which has been greatly undervalued by the market for fears over tighter financial regulation. Both segments now represent 17.8% of the Carmignac Investissement portfolio.

► Exposure to gold mines has been re-initiated

Our position in gold mines, which was significantly reduced in December, was re-initiated (from 4.3% to 10.8%). The worsening of the sovereign credit crisis is foreseeable, thus causing gold prices to go up. We increased our existing positions, reinstated two principal mines, Barrick Gold Corp and Newmont Mining, and added Red Back Mining, which we feel has very promising deposits.

II – Bond performance drivers

► Government debt: we are strictly avoiding non-investment-grade bonds

Given the increasing financing costs some governments had to face earlier this year, we will strictly avoid non-investment-grade bonds. We have not been directly impacted by the European government bonds crisis; yet, we have made the orthodox choice to replace French bonds with over a year maturities by German government bonds. Our sensitivity is expected to range between 2 and 4 this quarter.

► Currencies: taking advantage of the fall in the euro against the dollar and emerging currencies

Most capital gains opportunities will be generated by the foreign exchange market, especially given that the continuing fall of the euro seems difficult to avoid and is likely to be further amplified, compared to a selection of emerging currencies whose fundamentals are seeing daily improvements. As we now consider the weakness of the euro to be structural, only 20% of the Carmignac Patrimoine portfolio is now denominated in the European currency. By contrast, 50% of the portfolio is invested in the dollar, in order to benefit from the growth differential that favors the US economy. Local debt has also been reinforced to 6% of the fund's assets. By strengthening this segment, we benefit both from high returns on investment and from currencies' appreciation. This segment is spread between four countries: Brazil, Turkey, Poland and Mexico.

- ▶ Corporate bonds prospects are driven by the improvement in business activity and issuers' balance sheets

Within Carmignac Patrimoine, the corporate bond segment has slightly increased, from 30% to 36%. Our investments were concentrated in regions that we think are the most promising: emerging markets and the United States. 6% of our portfolio is therefore invested in US companies. We expect to benefit from the appreciation of the US dollar and from US firms' solid fundamentals: at the end of March 2010, S&P 500 index firms reported cash positions of \$831 billion, an all-time high. Overall, companies' financial leverage (debt to Ebitda ratio) also seemed to be on a downward trend, a sign that they are managing to repay their debt in a difficult economic environment. Emerging market corporate bonds represent 6% of the portfolio. Denominated mainly in dollars and in euros, corporate bonds often benefit from better protection (better coupons when ratings fall...), higher returns and a favorable macro-economic environment. They represent Carmignac Patrimoine's main allocation (24% of assets) and are still concentrated on European blue-chip companies, but this weighting is likely to be reduced gradually.

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About Carmignac Gestion

Founded in 1989 by Edouard Carmignac, Carmignac Gestion is one of the leading independent asset management companies in Europe today. The company's shares are held entirely by its managers and staff. In this way, the company's long-term viability is ensured by a stable shareholding structure, reflecting its spirit of independence. This fundamental value ensures the freedom required for its successful and renowned portfolio management.

Managing €40 billion of assets, Carmignac Gestion has developed a range of 19 funds across all asset classes, including equity funds and balanced funds, as well as a mandate offering.

Our funds are actively distributed in eleven countries: France, Luxembourg, Switzerland, Belgium, Italy, Germany, Austria, Spain, the Netherlands, Sweden and Singapore. As a platform for its international development, the company has had a subsidiary in Luxembourg since 1999. In 2008 it opened representative offices in Madrid and Milan.