

Innovation

Management report at 31 December 2011



T. Jaksland

Net assets

€55,896,570.67

Value of the share

€206.12

The equity markets ended 2011 on a positive note. The healthcare and new technology sectors posted performance in line with the global equity markets, while alternative energy saw another quarter of negative performance. **Carmignac Innovation** posted quarterly performance of 7.84%, against 11.30% for the benchmark indicator. For 2011, the fund posted a decline of 8.53% against a rise in the index of 3.27%.

We were somewhat surprised by the year-end optimism shown by investors, given the persistent macroeconomic uncertainties and the deteriorating fundamentals of technology companies, with a number of these stocks having issued profit warnings as demand weakened.

During the quarter, our asset allocation again favoured the healthcare sector, and we maintained a level of exposure well below 100%. We kept away from alternative energy, a sector still suffering from overcapacity. Our relative quarterly underperformance was due mainly to lower exposure to the market. On the other hand, our decline in performance over 2011 was chiefly due to the fall in alternative energy, a sector that does not feature in our benchmark index.

■ Current Positioning

Analysts' overall profit expectations for technology companies seem to us to be overoptimistic. A certain prudence and a highly selective stance when it comes to choosing stocks. We focus on smartphones, security and search engines.

In the healthcare sector, the regulatory framework is shaping up more favourably than in 2011, particularly in the United States. Nevertheless, healthcare spending still has every chance of being one of the main targets of austerity measures taken by governments. We continue to favour laboratories offering treatments for chronic and fatal diseases, such as diabetes and cancer, along with companies marketing drugs whose efficacy represents a genuinely differentiating factor.

■ Healthcare

Companies involved in treatments against hepatitis C again distinguished themselves during the quarter. Pharmasset was the subject of a bid by **Gilead**. This stock, held by the portfolio throughout the year, ended 2011 up an exceptional 488%. On the other hand, **Vertex** posted disappointing quarterly performance and lost all the gains it made earlier in the year. While its Incivek drug was among the best biotechnology product launches ever, concerns about competition from **Pharmasset** from 2014, combined with sales that peaked less than six months after the product's launch, weighed on the stock's performance. During the first half of 2012, the company is likely to receive authorisation to market the first immunomodulator treatment for cystic fibrosis, which should enable it to regain favour with the market.

The enzyme technology developed by **Halozyme** has proved very promising for treating a large number of infections. The group has also joined forces with Roche to improve both groups' most renowned anti-cancer drugs. During the quarter it posted very encouraging results concerning an innovative insulin-based product. This drug is likely to be the subject of a partnership in 2012, for which **Novo Nordisk**, the global leader in diabetes treatment, is among the potential candidates.

In November, Lipitor, the world's top-selling drug, entered the public domain. In 2012, treatments whose sales exceed €30 billion will cease to be exclusive, opening the door to enormous opportunities for the generics sector, where the three leaders are **Teva**, **Novartis** and **Mylan**.

■ Technology

Spending on advertising is rapidly moving away from traditional media, such as television, in favour of online media. Within online advertising, spending is now focused more on search than on display, search being a much more efficient way of targeting customers. **Google**, which was added during the quarter, and **Baidu** are both beneficiaries of these trends. The next

targets for these two companies are mobile telephone search and services based on geolocation, which are starting to be developed as a result of the growing penetration of smartphones.

Despite a weaker economic context, the increased rate of penetration of smartphones is continuing at a sustained rate and sales during the year-end festivities were astonishingly vigorous. Within the technology sector, we identify this segment as having the greatest potential. We are exposed to it through our positions in **Apple** and **Skyworks**, along with the component manufacturers **Ceva** and **Melfas**.

We have reduced our exposure to software firms by selling **Oracle** and **Informatica**. This is because, in a vulnerable macroeconomic context, companies tend to reduce their spending on IT systems.

■ Alternative energy

Overcapacity in the solar module sector, combined with disappointing demand, has led to a rapid fall in prices, hitting the profits of the companies concerned. Despite the nuclear disaster in Japan, there seems to be little or no political will to ensure the long-term provision of subsidies for renewable energies.

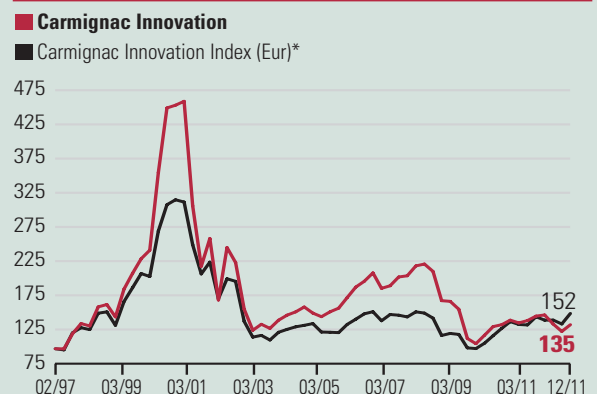
2011 was a particularly difficult year for the stocks of companies specialising in wind and solar power, a trend that was confirmed in the fourth quarter. For too long we believed that the market would improve, pinning our hopes on the decisions of Germany and certain other countries to shut down their nuclear power stations. This excessive optimism weighed heavily on our absolute and relative performance in 2011. Having sold all our positions in this sector in the third quarter, our decision to stay away from these stocks for the rest of the year proved sound.

Among the best annual rises, we highlight:

| Stocks | Performance |
|--|-------------|
| Pharmasset , biotechnology, United States | +489% |
| Autonomy* , software, United Kingdom | +69% |
| Ceva , semiconductors, United States | +48% |
| Apple , computer hardware, United States | +26% |
| Baidu , search engine, China | +21% |

* position fully sold on 22.09.2011

Performance of the Fund since launch



* Index composed of 50% MSCI Information Technology (Eur), 48% MSCI Pharmaceuticals (Eur) and 2% MSCI ACWF Energy Equipment (Eur), (Ex-Dividends).

Please note that past performance is not a guide to future performance and that it may fluctuate over time.

| Accumulated performance (%) | Since 31/12/2010 | 3 months | 6 months | 1 year | 3 years | 5 years | 10 years | Since the first NAV |
|-----------------------------|------------------|----------|----------|--------|---------|---------|----------|---------------------|
| Carmignac Innovation | -8.53 | 7.84 | -0.70 | -8.53 | 17.51 | -34.06 | -46.40 | 35.18 |
| Reference indicator* | 3.27 | 11.30 | 6.82 | 3.27 | 49.75 | 1.70 | -25.08 | 51.64 |
| Category average** | -7.81 | 6.99 | -2.75 | -7.81 | 71.67 | 4.41 | -19.21 | 60.35 |
| Ranking (quartile) | 3 | 3 | 3 | 3 | 4 | 4 | 4 | 2 |

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** Sector Equity Technology.

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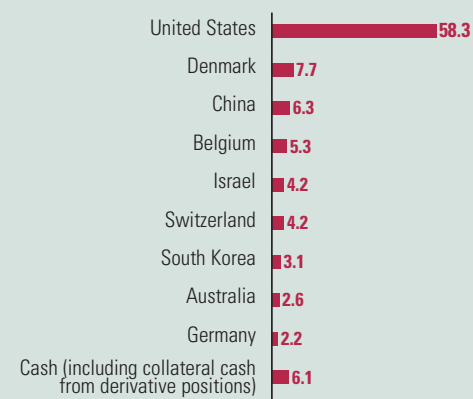
Quarterly gross performance contribution (%)

| Portfolio | Equity & Bond Derivatives | Currency Derivatives | Total |
|-----------|---------------------------|----------------------|-------|
| 10.90 | -2.86 | 0.20 | 8.24 |

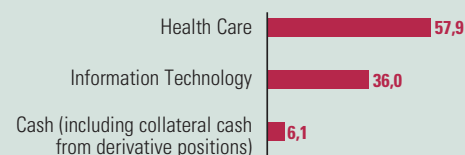
Statistics (%)

| | 1 year | 3 years |
|----------------------|--------|---------|
| Fund volatility | 12.09 | 13.59 |
| Benchmark volatility | 11.51 | 12.04 |
| Sharp ratio | -0.82 | 0.23 |
| Beta | 0.79 | 0.93 |
| Alpha | -0.94 | -0.58 |

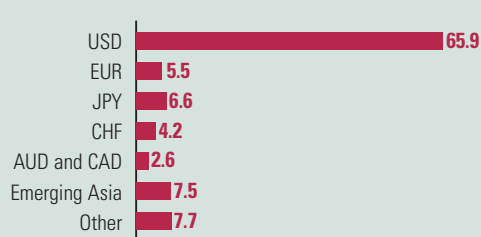
Country breakdown (derivatives excluded) (%)



Sector breakdown (derivatives excluded) (%)



Net currency exposure of the fund (%)



Portfolio Carmignac Innovation at 31/12/2011

| | Price in local currencies | Total value (€) | % of net assets | |
|--|---------------------------|----------------------|-----------------|------|
| CASH, CASH EQUIVALENTS AND DERIVATIVES OPERATIONS | | 3 395 724.62 | 6.08 | |
| CASH (INCLUDING COLLATERAL CASH FROM DERIVATIVE POSITIONS) | | 3 395 724.62 | 6.08 | |
| EQUITIES | | 52 500 846.05 | 93.92 | |
| Health Care | | 32 396 902.91 | 57.96 | |
| 100 000 ABLYNX SA | Belgium | 3.41 | 341 000.00 | 0.61 |
| 86 500 CELGENE CORP | United States | 67.60 | 4 504 410.12 | 8.06 |
| 56 500 CSL | Australia | 32.00 | 1 427 894.49 | 2.55 |
| 164 015 GALAPAGOS | Belgium | 10.39 | 1 704 115.85 | 3.05 |
| 79 200 GILEAD SCIENCES INC | United States | 40.93 | 2 497 135.15 | 4.47 |
| 300 000 HALOZYME THERAPEUT | United States | 9.51 | 2 197 742.94 | 3.93 |
| 127 000 MYLAN INC | United States | 21.46 | 2 099 464.62 | 3.76 |
| 53 600 NOVARTIS | Switzerland | 53.70 | 2 371 134.36 | 4.24 |
| 48 400 NOVO NORDISK AS | Denmark | 660.00 | 4 297 967.67 | 7.69 |
| 66 000 ONYX PHARMACEUTICALS | United States | 43.95 | 2 234 487.54 | 4.00 |
| 16 000 PHARMASSET | United States | 128.20 | 1 580 094.75 | 2.83 |
| 75 300 TEVA PHARMACEUTICALS ADR | Israel | 40.36 | 2 341 106.96 | 4.19 |
| 50 003 THROMBOGENICS | Belgium | 18.90 | 945 056.70 | 1.69 |
| 150 700 VERTEX PHARMACEUTICAL INC | United States | 33.21 | 3 855 291.76 | 6.90 |
| Information Technology | | 20 103 943.14 | 35.97 | |
| 13 900 APPLE INC | United States | 405.00 | 4 336 555.87 | 7.76 |
| 22 800 BAIDU | China | 116.47 | 2 045 615.68 | 3.66 |
| 30 000 CEVA INC | United States | 30.26 | 699 302.85 | 1.25 |
| 42 800 CHECK POINT SOFTWARE | United States | 52.54 | 1 732 243.58 | 3.10 |
| 140 500 COMPUGROUP HOLDING | Germany | 8.70 | 1 222 350.00 | 2.19 |
| 3 000 GOOGLE | United States | 645.90 | 1 492 662.64 | 2.67 |
| 45 000 MELFAS | South Korea | 25 400.00 | 764 308.80 | 1.37 |
| 100 000 RPX | United States | 12.65 | 974 463.66 | 1.74 |
| 45 500 SILICON WORKS | South Korea | 31 200.00 | 949 267.52 | 1.70 |
| 208 000 SKYWORKS SOLUTIONS | United States | 16.22 | 2 598 898.43 | 4.65 |
| 71 000 SOURCEFIRE | United States | 32.38 | 1 770 966.38 | 3.17 |
| 98 000 TENCENT HOLDINGS | China | 156.10 | 1 517 307.73 | 2.71 |
| PORTFOLIO VALUE | | 52 500 846.05 | 93.92 | |
| NET ASSETS | | 55 896 570.67 | 100.00 | |