



Carmignac Portfolio Patrimoine Europe: Letter from the Fund Manager

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Length
5

-5.70%

Performance of the Fund over the 2nd quarter for the A EUR Share class.

-6.55%

Performance of the reference indicator (1) over the 2nd quarter.

+7.12%

Annualized performance of the Fund versus +2.47% for the reference indicator since launch (29/12/2017)

Carmignac Portfolio Patrimoine Europe A EUR Acc lost -5.70% in the second quarter of 2022, outperforming the -6.55% drop in its reference indicator¹.

Quarterly Performance Review

In the second quarter, the war and the commodity-price shock sent an inflationary impulse to developed economies. The latter, already facing post-Covid overheating, have also been affected by China's zero-Covid policy, which has put further strain on supply chains. Accordingly, the timing of peak inflation kept being pushed back, prompting a sharp response from central banks – first and foremost the Fed. As the inflation outlook has evolved, developed-world central banks have pursued their increasingly hawkish monetary policies. Towards the end of the period, the rhetoric changed as market participants became increasingly concerned about growth. This is particularly true in Europe, where at the dawn of its policy normalisation, the ECB is faced with a dilemma: how to combat ever-rising inflation without slowing the economic growth that has already been hit by the war in Ukraine and the situation in China?

This confluence of events has affected both equity and bond markets which were, once again this quarter, primarily driven by monetary policy decisions and macroeconomic data. Equity valuations have therefore been revised downward as interest rates moved higher to reflect central bankers' normalization policies. **Despite an overall prudent exposure, our Fund has not been able to fully mitigate the massive decline in asset prices and recorded a negative performance over the period.**

We started the quarter with a very defensive approach, characterized by a low equity exposure, reduced credit investments and a high level of liquidity. **We kept this positioning during the period, and it was efficient in compensating most of the equity losses. However, it wasn't enough to mitigate the widening of credit spreads, which suffered the double blow of both higher interest rates and increased credit risk.**

In our equity book, both our stock selection and our hedges helped the Fund to attenuate the blow. Our positioning toward quality growth names did well in relative terms, helped by our Q1 adjustments, which made our equity book more defensive. One example of this is the performance of our main sector weighting – healthcare – which made a positive contribution to returns over the quarter, while European markets were down by more than 10%. The industry leaders, such as Novo Nordisk and Sanofi, have held up well and so have more innovative companies like Argenx. However, the key issue in this environment was risk management. In this regard, the sector hedges we implemented throughout the period worked well, especially those on technology indices (Stoxx 600 Tech, Nasdaq). They allowed us to mitigate the growth bias in the portfolio and to benefit from the rise in interest rates and the impact on the valuations of technology companies.

On the fixed income side, in addition to our credit book, volatility on interest rates has been unprecedented and dragged down performance. In June, we experienced episodes of high volatility not seen for years. After fears of persistently high inflation, market participants appeared to shift their focus to fears of slowing growth. As interest rates fell to deal with this new landscape, we maintained our view that inflation will be the main concern in the coming weeks. As a result, our short positions on rates weighed on the Fund's performance, but we hold to our view that inflation will be the ECB's main issue over the coming months.



Our Positioning and Outlook

Escalating concerns that central banks' efforts to tackle inflation by hiking rates will trigger a global slowdown was the main topic in the markets at quarter end. The key question for us is not whether they can tackle inflation without leading developed economies into a recession, but rather how hard the landing will be. The impact of a recession on the market could be very different from what we have seen in recent months.

On the **equity side**, after valuations suffered from the rising interest rates, corporate earnings should be the driving force behind stock markets going forward. While they've shown resilience so far, they are likely to come under pressure since the impact of rising costs is not yet reflected in companies' margins. We therefore believe that a focus on quality growth companies with high profitability and that reinvest in future growth should support performance, at least relatively. Over the period, we continued to rotate our portfolio by reducing the weighting of cyclical companies (such as Kingspan, Schneider and Epiroc) and increasing the weighting of companies in more defensive sectors, particularly healthcare and corporate services (SAP, Edenred). We also believe that the de-rating in some high-quality names makes them very attractive and provides excellent opportunities to deploy our cash in the coming months. However, stocks still have not reached a capitulation point and investors' mood may be shifting from fear of missing out to fear of holding on. In this regard, we have maintained our hedging on equity markets and therefore start the third quarter with a net exposure close to 0%.

On the **fixed income side**, the situation might be different. Valuations suggest a somewhat more constructive stance to credit markets, which seem to have integrated both tighter monetary policies and higher recession risks. Underneath the surface, this has provided various specific opportunities which we are steadily gaining exposure to, while still covering our overall market risk. On the sovereign front, we stay cautious on Europe given the ECB's intention to proceed with monetary tightening by all means, as expressed in its willingness to address fragmentation concerns – i.e. keeping a lid on any significant widening in eurozone spreads. However, we expect the volatility to stay high. With this in mind, we are actively managing the modified duration of the fund on a more tactical basis. But, underneath this cautiousness, we are preparing to redeploy our substantial pool of liquidity into the various asset classes at our disposal and sow the seeds of future performance drivers.

Source: Carmignac, Bloomberg, 30/06/2022. Performance of the A EUR Acc share class ISIN code: LU1744628287. ¹Reference Indicator: 40% STOXX Europe 600 (Reinvested Net Dividends) + 40% ICE BofA All Maturity All Euro Government + 20% ESTER capitalized. Quarterly Rebalanced. Until 31/12/2021, the reference indicator was 50% STOXX Europe 600, 50% BofA Merrill Lynch All Maturity All Euro Government Index. The performances are presented using the chaining method

Carmignac Portfolio Patrimoine Europe

Fund built to take advantage of Europe's many sectors and opportunities.

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Carmignac Portfolio Patrimoine Europe A EUR Acc

ISIN: LU1744628287

Recommended
minimum
investment horizon



Main risks of the Fund

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.

CREDIT: Credit risk is the risk that the issuer may default.

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.

Ongoing charges (2)

Performance fees (3)

Maximum Subscription Fee (4)

1.79%

Yes

4%

(2) 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. (3) Entry charges paid to distributors. No redemption fees. (4) Please refer to the prospectus for the minimum subsequent subscription amounts.

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