CARMIGNAC PATRIMOINE: LETTER FROM THE FUND MANAGERS

10/01/2024 | CHRISTOPHE MOULIN, JACQUES HIRSCH, DAVID OLDER

+3.75% Carmignac Patrimoine performance in the 4th quarter of 2023 for the A EUR Share class.	**+4.19%** Reference indicator's performance in the 4th quarter of 2023.	**+2.20%** 1 Year performance Vs 7.73% for the reference indicator.

*Over the period, **Carmignac Patrimoine** posted a positive performance of +3.75% (A EUR share), slightly below that of its reference indicator (+4.19%). The fund ended the year with a positive performance of +2.20%, compared with +7.73% for its reference indicator[1].*

MARKET ENVIRONMENT DURING THE PERIOD

The year 2023 ended on a similar note to the start of the year, buoyed by a fairytale scenario that saw both equity and fixed income markets rise sharply. Indeed, the cocktail of weaker-than-expected consumer and employment data in the US, combined with a stronger-than-expected slowdown in inflation, helped trigger a greater appetite for risk among investors in the final quarter. This was also reflected in communications from central banks, which did more than announce a definitive pause in their rate hike cycles, and evoked the prospect of a rate cut for the coming year in the case of the US Federal Reserve. On the bond front, long yields fell considerably, with the German 10-yr yield easing by -85bp to 2% and the US 10-yr yield falling by -70bp to 3.88%, benefiting from expectations of monetary easing in 2024. A similar observation can be made of credit spreads, which narrowed by -118bp on the Xover index during the observation period, returning to a valuation level prior to the start of the war between Russia and Ukraine, thus arguing for a form of vigilance despite a still-attractive carry. The trend is similar for equities, which saw their valuations substantially inflate over the quarter, as in the case of US equities, which are now paying on average x19.6 expected earnings. While this long-awaited market rebound comes more than a year after inflation peaked, the historical performance of the last two months must be set against the complexity of the current environment. Indeed, the geopolitical situation has deteriorated considerably with rising tensions in the Middle East, growing deficits will have to be financed and the cyclical component of inflation remains high. At the same time, China has continued to sink into a deflationary spiral, weakening the world economy's growth prospects at a time when the US consumer is beginning to show signs of slowing. Lastly, while inflation did fall on both sides of the Atlantic, this slowdown was due more to the most volatile components, such as energy, which benefited from favourable base effects. The road ahead for core inflation to return to the central bankers' target will probably be much longer, and potentially more painful, than the market is taking it for granted.

HOW DID WE FARE IN THIS CONTEXT?

Over the year, the fund delivered a positive absolute performance, benefiting from its equity engine and exposure to credit assets, notably financial subordinated debt and structured credit. On the other hand, relative performance was down due to the negative contribution of our hedging strategies, particularly on the equity front in the first quarter. More specifically, during the last quarter (and the installation of the new management team), the fund took full advantage of the flexibility of its mandate to mitigate the market downturn during October, and then to capture the strong rebound of the last two months of the year, resulting in a significantly positive performance. In fact, our net exposure to equities was managed dynamically, fluctuating between 17% at the beginning of the period and 42% at the end. Within the equities portfolio, we have begun to desensitize the portfolio from the most sought-after stocks that drove equity market performance in 2023, in favor of defensive sectors such as healthcare and consumer staples, on the one hand, and high-potential assets such as emerging markets, on the other. Interest-rate and currency management was not outdone, with recurrent profit-taking on core rates over the observation period resulting in a reduction in the portfolio's interest-rate sensitivity from 3.3 to 1.3. Our exposure to the dollar was also trimmed from 33% to 21.5%, in favor of currency themes linked to commodity-producing countries and the Japanese yen, whose economy is emerging from a long period of deflation and whose reservoir of performance remains intact. We are approaching the start of the year with a measured positioning in terms of both interest-rate risk and equity risk. Indeed, while the positive correlation between equity and bond prices has been favourable in recent months, expectations seem particularly optimistic on the disinflation front, as well as in terms of future rate cuts and corporate earnings expectations. The main vulnerability lies in the contradiction between an aggressive rate-cutting cycle in the US this spring and a benign economic growth trajectory.

OUTLOOK

After a particularly favourable end to the year for both equity and ffixed income markets, the future direction of the markets raises questions. Although inflation has fallen sharply in recent months, coming close to the central bankers' target, it remains under pressure from secular trends (military conflicts, ageing populations, energy transition, relocation of production chains) and cyclical trends (the US economy is resisting the interest-rate shock well). The first part of the year is likely to be characterized by the possibility of the US economy not landing, while the European economy oscillates between stagnation and recession, and China is still slow to show signs of easing both on the economic and political fronts. In the short term, these uncertainties argue in favor of active management, combining exposure to credit assets to benefit from carry (over 5% in the fund) and tactical protection to guard against any widening of credit spreads following the sharp tightening of index valuations. We are also maintaining long positions on real rates and break-even inflation rates, to hedge the fund in the event of any unpleasant surprises on the disinflationary expectations front. We believe that the market has now taken on board the potential for rate easing by central bankers in 2024, prompting us to take profits and adopt an active duration management approach, particularly on long rates, which are likely to suffer from high issuance volumes. Within equities, this same scenario also argues in favor of maintaining active management of net exposure, as we did in the fourth quarter. While much of the good news has already been priced in, certain catalysts (falling real interest rates, fiscal largesse, rebounding productivity, etc.) could emerge in the future to support the main indices. We believe it is now time to diversify sector and geographic exposures, following the strong rally concentrated on a limited number of issuers in 2023. We have therefore gradually increased our exposure to gold, mining and energy stocks, and reorganized our geographic exposure by taking profits on US equity indices in favor of emerging equity markets. Lastly, the forthcoming rate cuts by the Federal Reserve and the rise in US political risk should lead to a depreciation of the US dollar, arguing in favor of maintaining a diversification of our currency exposure through the euro, the Japanese yen and the currencies of commodity-producing countries (Australia, Mexico, Brazil).

Source: Carmignac, 29/12/2023, portfolio composition may vary over time. Carmignac Patrimoine, A EUR Acc.

1) Reference indicator: 40% MSCI ACWI (USD) (Reinvested net dividends) + 40% ICE BofA Global Government Index (USD) + 20% ESTER capitalised. Quarterly rebalanced. Until 31 December 2012, the reference indicators' equity indices were calculated ex-dividend. Since 1 January 2013, they have been calculated with net dividends reinvested. Until 31 December 2020, the bond index was the FTSE Citigroup WGBI All Maturities Eur. Until 31 December 2021, the Fund's reference indicator comprised 50% MSCI AC World NR (USD) (net dividends reinvested), and 50% ICE BofA Global Government Index (USD) (coupons reinvested). Performances are presented using the chaining method. From 01/ 01/ 2013 the equity index reference indicators are calculated net dividends reinvested. ***Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations. Performances are net of fees (excluding possible entrance fees charged by the distributor)****.*

SFDR - Fund Classification** :

Article 8

LOWEST RISK						HIGHEST RISK
1	2	3*	4	5	6	7

Recommended minimum investment horizon **3 YEARS**

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.

* *Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time.
**The Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 is a European regulation that requires asset managers to classify their funds as either 'Article 8' funds, which promote environmental and social characteristics, 'Article 9' funds, which make sustainable investments with measurable objectives, or 'Article 6' funds, which do not necessarily have a sustainability objective. For more information please refer to https://eur-lex.europa.eu/eli/reg/2019/2088/oj.

FEES

Entry costs : 4,00% of the amount you pay in when entering this investment. This is the most you will be charged. Carmignac Gestion doesn't charge any entry fee. The person selling you the product will inform you of the actual charge.

Exit costs : We do not charge an exit fee for this product.

Management fees and other administrative or operating costs : 1,51% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : 20,00% max. 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. 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.

Transaction Cost : 0,63% 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.

ANNUALISED PERFORMANCE (ISIN: FR0010135103)

Calendar Year Performance (as %)	2014	2015	2016	2017	2018
Carmignac Patrimoine	**+8.8 %**	**+0.7 %**	**+3.9 %**	**+0.1 %**	**-11.3 %**
Indicateur de référence	+16.0 %	+8.4 %	+8.1 %	+1.5 %	-0.1 %

Calendar Year Performance (as %)	2019	2020	2021	2022	2023
Carmignac Patrimoine	**+10.5 %**	**+12.4 %**	**-0.9 %**	**-9.4 %**	**+2.2 %**
Indicateur de référence	+18.2 %	+5.2 %	+13.3 %	-10.3 %	+7.7 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Patrimoine	**+2.5 %**	**+2.4 %**	**+2.0 %**
Indicateur de référence	+2.6 %	+4.7 %	+6.5 %

Source: Carmignac at 30 Apr 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).