QUARTERLY REPORT

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Carmignac Investissement: Letter from the Fund Manager

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Len

-1.56%

Carmignac Investissement's performance

in the 3rd quarter of 2022 for the A EUR Share class

-0.56%

Reference indicator's performance

in the 3rd quarter of 2022

+5.55%

3-year annualized performance of the Fund

versus +7.50% for the reference indicator

Over the period, Carmignac Investissement recorded a performance of -1.56%, below its reference indicator[1] (-0.56%).

Market environment

The global macroeconomic backdrop is worse today than it was at the beginning of the third quarter. Worldwide, an increasing share of economies are going into contraction, as inflation begins to pressure margins as well as purchasing power, and tighter financial conditions weigh on demand.

The deteriorating growth outlook first led markets to anticipate an earlier than expected return to accommodative policies, resulting in a sharp rebound in risky assets over July/August as well as lower rates, likely supported by investors' negative positioning (a "bear market rally"). However, central banks, chief among them the Federal Reserve, have been steadfast in their hawkish posture, reiterating the intention to bring inflation down "whatever the cost". China remains an exception, maintaining accommodative policies to support faltering growth, worsened by the ongoing "zero covid policy".

Sharp tightening by Central banks and markets' disillusion stirred chaos, with volatile moves across asset classes. The yield on the US 10-year bond first dropped 1 percentage point to 2.5% before rallying to 4% over the period. The MSCI World rallied 20% from its low, then corrected 16% from its August high. Oil prices increased by $10 before losing $20 to $90 a barrel. Finally, the Dollar rallied 9% against a basket of currencies.

How did we fare in this context?

In this challenging backdrop, our equity strategy recorded a decline over the period led by the underperformance of growth stocks in the portfolio. While we actively rebalanced the portfolio towards profitable growth companies this year, these companies still trade at elevated multiples and are thus sensitive to the interest rate related multiple compression that we have seen this year. Among the detractors to the performance, our consumer discretionary stocks suffered from an overweight position in JD.com, a China proxy for domestic demand that is still constrained by Covid-related health measures. We remain positive on the stock given the gradual lifting of these restrictions which we expect to accelerate into the end of the year. On the positive side, our stock picking within the industrials sector supported the overall performance; our position in Sunrun, an American provider of residential solar energy generation and battery storage, recorded a decent return on the back of the Inflation Reduction Act (IRA) signed by the Biden administration that commits $369 billion to clean energy and greenhouse gas reduction. Uber Technologies, which reported solid Q2 earnings and is now free cash flow positive, also contributed positively.

Outlook

Central bank hawkishness since the beginning of the year has led to a contraction of market multiples. As of the end of 3Q, the MSCI World was trading at 14x forward earnings, down from 20x at the beginning of the year, one of the steepest contractions on record. As we expect rates to plateau somewhat from here, we see the risk of further sharp multiple compression to be limited. However, we do anticipate a recessionary backdrop as we enter 2023 and therefore see downside risk to forward earnings expectations. The bright side is that this process of cutting forward earnings estimates has begun in recent weeks and should only accelerate over 3Q earnings releases in November, creating a more favorable backdrop for forward returns.

In this context, our strategy consists of building a portfolio incorporating reasonably valued visible growth companies that we believe will outperform the market as economic growth slows and rates plateau, defensive profiles that outperform in a recessionary environment like the Healthcare and Staples sectors, and companies levered to the supply/demand imbalance in the energy sector.

Over the quarter we trimmed or exited names that we found vulnerable to earnings' disappointment with our current outlook, despite the attractiveness of their business models. This is the case in the digital advertising space, where advertising growth is challenged by slowing economic activity and rising competition for advertising dollars, leading us to reduce our position in Alphabet and exit Meta. We have also reduced our exposure to the semi-conductor space (ASML, Taiwan Semiconductor, Marvell Technology) which, despite being a solid long-term play on digitization, remains exposed to volatility related to the normalization of supply changes and the excess Covid-related demand trends that led to overordering. We have also taken profits on some of our consumer staples names like Constellation Brands and Costco as they have been significant outperformers versus the overall market, while maintaining our staples exposure by adding L'Oreal on its inter-quarter correction. In Healthcare, we increased our exposure to Novo Nordisk, that is seeing incredible forward demand for its Wegovy obesity treatment and added AstraZeneca. It is important to note that when looking for defensive exposure in the Staples or Healthcare sectors, we focus on companies where we can develop a variant view versus the consensus (for example around a new product launch), and thus remain aligned with our investment process.

Within our visible growth exposure, we have taken advantage of significant multiple compression to increase our holding in Amazon, which now represents over 4% of assets, and Palo Alto, a major player in cybersecurity. In a recessionary environment, IT security is one of the few expenditure items that companies are either maintaining or increasing, no longer representing an option but a necessity. We've also increased our investment in the online company Booking.com, as we believe the market is too bearish on forward travel trends in Europe, reflected in a valuation at a discount to the market with much better fundamentals. We have also initiated a new position in Stryker, a US company specialized in robotic surgery and a big winner for us in 2020 and 2021. We see elective surgery procedures finally begin to normalize after Covid-era headwinds.

We start off this new quarter with a highly diversified portfolio in terms of sector, geography, style, and biases. 36% of our holdings trade at below 20x forward PE, and 40% of our portfolio has a beta below 1. The core of our portfolio is comprised of quality growth names (39%), which we balance out with an allocation to the energy sector (10%) and high growth names (11%) which valuation has substantially contracted. Finally, we hold 9% in cash, which we will steadily redeploy throughout the next quarter.

Carmignac Investissement A EUR Acc

ISIN: FR0010148981

Lower risk Higher risk

1	2	3	4*	5	6	7

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.

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.

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.