QUARTERLY REPORT

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Carmignac Investissement: Letter from the Fund Manager

Author(s)
David Older

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-9.60%

Carmignac Investissement's

performance in the 1st quarter of 2022 for the A EUR Share class

-3.27%

Reference indicator*'s

performance in the 1st quarter of 2022

60%

Of the current portfolio is invested in

defensive & quality stocks to navigate challenging days ahead.

In the first quarter of 2022, Carmignac Investissement posted -9.60% returns versus -3.27% for its reference indicator mainly because of an underweight in the energy sector, an exposure to high growth/high multiple names and the Chinese exposure.

Performance since the beginning of the year

Last year equity markets climbed the wall of worry, supported by extraordinary liquidity injections by central banks in the aftermath of the Covid crisis. In contrast, over the past 3 months market sentiment has steadily fallen, punctuated by higher inflation prints and a US Federal Reserve seemingly behind the curve. With spiking inflation, higher rates, lower growth and less monetary support, markets corrected on the negative macro backdrop, shrugging off any positive fundamental news. Indeed, despite US companies publishing solid Q421 results (76% of US companies beating on EPS and 68% beating on revenues), more than 50% of companies in the S&P 500 traded below their 250-day moving average over the first quarter. When the conflict broke out in Ukraine, investors were set in risk-off mode, sending indices into a nosedive across regions, chief among them Europe, more exposed to the crisis and its long-term consequences. In China, the regulatory overhang coupled with worries over the country's neutrality with Russia and its "zero-Covid" policy continued to weigh on the region. A silver lining came with the vice premier Liu He's speech in mid-March, reaffirming the government's willingness to support markets and the economy, resulting in a strong rebound of the still depressed Chinese market.

Markets driven by macroeconomics and geopolitical tensions are extremely complicated for bottom-up stock pickers, but such periods can provide opportunities for those discerning investors focusing on innovative business models with secular growth characteristics. This is the opportunity for Carmignac Investissement.

Over the period, Carmignac Investissement posted -9.60% returns versus -3.27% for its reference indicator. The main drag on returns were attributed to:

An underweight in the energy sector. Our investment approach resulting in a structural underweight of the traditional energy sector in favor of renewables was dually painful: the energy sector is up 36% since the beginning of the year, representing a substantial relative underperformance for our strategy. Meanwhile, renewable names, with business projects financed over multiple years, were also hurt by rising rates over the period. Most recently, the mounting pressure on European countries to seek alternative to Russia's exports has been supporting their performance. Over the quarter, we closed our energy underweight by adding Schlumberger and Total.

An exposure to high growth/high multiple names at the beginning of the period. These names suffered from rising rates, hurting their valuation. Moreover, as many of them were Covid beneficiaries, markets have been trying to assess the normalized adoption rate of the services they offer. Combined with the macro backdrop, this led to share weakness, sometimes exaggerated on short-term results. While we had steadily reduced or exited names that we felt were the most sensitive to a rising rate backdrop, having halved our exposure to the segment by the end of the quarter, we suffered from some of them still present in the portfolio, including Meta and Delivery Hero.

Our Chinese exposure. Our exposure has been twice that of the reference indicator over the period, and has consequently hurt our performance in relative terms, despite the strong rebound in March. Recent government comments related to regulation and US listings are working in favor of the innovative companies that we invest behind China, and we expect this exposure to outperform as the year progresses.

Recent developments

While we expect headline inflation to come down over the next months, we expect core inflation (driven by wage growth and housing) to continue to be stubbornly high, leading to an ongoing hawkish perspective of the US Federal Reserve. Additionally, the goal of reducing reliance on historic energy sources and commodity trading partners will come with at a higher cost. Covid lockdowns could also further affect international trade, as China struggles to manage a Covid wave. Meanwhile, growth which was already slowing is expected to slow even further, notably in Europe, where the high energy-driven inflation is considerably weighing on consumers' willingness to spend and company margins. The dynamics at play pose the risk of stagflation - slow growth and high inflation.

Throughout the quarter we have strived to maintain our focus on innovative and sustainable companies, within major global themes, as such companies ultimately offer the best sources of long-term returns. We have adjusted our portfolio construction in order to optimize performance drivers in an environment of higher inflation and slower growth as well as to prepare the portfolio to rebound once markets have passed through this period of risk aversion.

First of all, we believe high visibility, secular growth names should remain a core part of equity positioning going forward. These companies tend to outperform when economies are slowing, as investors are willing to pay a premium for self-sustaining growth. Within this segment, we are wary of high valuations, as these are highly sensitive to rising rates. Fortunately, many attractive sectors have seen their multiples contract, and now offer compelling investment opportunities.

Within growth investments, we favor defensive names, those offering essential goods and services, for which demand is relatively inelastic to increases in prices. In an inflationary environment, we also favor quality, characterized by high historical profitability, low levels of debt, and high levels of cash, allowing them to better weather rising rates and costs.

Finally, we do think investors should balance their growth investments with some exposure to sectors that benefit from an inflationary backdrop like energy, or post-Covid reopening demand like travel. Indeed, geopolitical tensions and supply pressures are supporting energy prices and the ecosystem around them, likely to create longer term growth dynamics in a sector generally seen as cyclical. Also, while rising prices are usually ominous for the consumer discretionary sector, we are seeing the signs of a strong recovery in leisure travel, as consumers are eager to enjoy reopening economies after two years of Covid-related mobility restrictions.

Breaking down our performance drivers

Defensive (~24% of the portfolio)

Healthcare. On top of being defensive, healthcare comprises a pool of highly innovative companies that are revolutionizing the sector, while contributing to sustainable development goals like good health and well-being. Demographic changes are fueling more advances as well, as the world population is aging. We increased our allocation to the sector with the strengthening of existing positions like **Novo Nordisk, Danaher, Pfizer, Eli Lilly** and new additions, such as Swiss pharmaceutical company**Roche**, the world's leading provider of cancer treatments, as well as **Humana**, the insurer focused on the growing US Medicare market.

Consumer staples. We also boosted the defensiveness of the portfolio by increasing our exposure to consumer staples, where we've had little exposure in recent years. As inflation or a slowing economy reduces consumers' purchasing power, they tend to focus their spending on essentials. As a result, consumer staples' companies can set prices higher, increasing topline growth and even more than compensating for higher costs. Just as with any other names in the portfolio, we look at how companies in the sector can leverage innovation to their advantage. One new example within our portfolio is **AB Inbev** which has developed a digital platform, opened to third parties, that is disrupting the traditional sales model by providing wholesalers with key insight into consumer demand. Another example is **Diageo**, which benefits from the spirits' premiumization trend and is particularly levered to the fast-growing tequila market.

Quality (~36% of the portfolio)

Software/digitization. Software comprises a significant portion of our investments around digitization. The digital-transformation trend is just starting, as only 10% of enterprise IT spending has shifted to the cloud so far, expected to triple by 2025. We favor cloud infrastructure providers **Microsoft, Amazon and Alphabet** as well as software companies utilizing the cloud like cybersecurity leader **Palo Alto Networks.** Cybersecurity will continue to be a vital part of corporate spend in the coming years, as there is approximately $1Tn in annual losses due to cybersecurity breaches but just $130Bn of annual spend on security software, and this gap is only expected to widen.

In addition to solid fundamentals, many large technology companies continue to send positive signals to the markets, through buybacks (**Alphabet** bought back 50 billion dollars' worth of shares last year), stock splits (**Amazon 20:1**), major investments (top 5 spending $100Bn of capex annually) and mergers/acquisitions (**Microsoft** for **Activision**, **Alphabet** for cybersecurity company **Mandiant**). Finally, software's multiples have contracted by almost 30% since the beginning of the year, making this sector more attractive.

Digital consumption. The adoption of digital consumption was rapidly accelerated by Covid, but recent slowing growth of some segments worried investors about the ongoing growths rate for these services. We see this as a normalization of growth that should remain robust. We thus continue to favor the overall segment of digital consumption, with investments in ecommerce players in both developed (**Amazon**) and Emerging (**Mercadolibre**, **JD.com**) markets, as well as streaming service companies like **Universal Music**.

Luxury. We maintain an exposure to luxury names, notably our historical holding of **Hermes**, but also **LVMH**. While displaying high valuations, these are quality companies with high historical profitability and healthy balance sheets, that have shown resilience in both inflationary and recessionary environments.

Energy (~8% of the portfolio)

Energy. Our exposure is spread over both traditional energy companies (**Schlumberger, TotalEnergies**), whose performance is correlated to rising oil and gas prices, and renewable companies (**Orsted, Sunrun**), which are benefiting from renewed interest as societies seek to be less dependent on Russian exports. It should be noted that while we don't usually invest in traditional energy companies, Schlumberger has in the past years heavily invested in the digitalization of all its activities, as well as in new technologies, notably via artificial intelligence in order to improve productivity and optimize the search for and extraction of resources - clearly an "innovation" aspect that falls within the scope of our strategy. Finally, both Schlumberger and TotalEnergies are very active in decarbonization and actively invest in the development of new energy solutions. TotalEnergies invested hundreds of millions of dollars to convert part of its legacy oil refineries into biorefineries, qualifying it as a transitioning business in the Oil & Gas industry.

Stocks linked to the reopening of economies (~10% of the portfolio)

Tourism. After two years of consumer fear and international mobility restrictions, we believe we will now witness a sustained inflection in tourism demand. We have therefore reinforced and initiated positions related to the reopening of economies and tourism/leisure (hotels, airlines, travel agencies, amusement parks, payments). Core positions include Uber, Booking, Mastercard, Safran and Airbus.

High growth names (~5% of the portfolio).

Although limited, we maintain a selective exposure to some high growth names in innovative segments

- **Electrification**. We are constructive on electrification and the ecosystem around it. We like pure electric vehicle players but also companies that are investing to improve battery usage, like CATL in China and LG Energy Solutions in Korea. We think the future of mobility is not only about electrification, but also about autonomous driving, with advances greatly supported by artificial intelligence.
- **Fintech**. Digital adoption in payments and retail commerce is growing rapidly and we expect mobile payments to comprise two-fifths of in-store purchases in the US, quadruple the current level in the next five years. In emerging markets, the effect could arrive even sooner as these countries transition directly from cash to mobile payments without ever utilizing plastic cards. Fintechs are contributing to the no-poverty sustainable goal, by offering credit opportunities to low income people in Emerging countries. Block (Square) is one example of fintech we own.

China (~5% of the portfolio).

Benefiting from vibrant growth and fast developing consumer trends, China remains a key focus in our search for innovative secular growth names. Recent announcements by China's Liu He set the tone for a potential smoothing of regulatory measures and a future easing of financial conditions to support markets and the economy. Meanwhile, valuations have reached attractive low levels compared with the historical average. For example, the Hang Seng trades at 7 times forward P/E, well below historical average and at similar levels than in 2003, despite the country's considerable growth over the period. We continue to focus on domestic names of the "new economy" benefiting from solid trends such as healthcare, digitization and electrification.

Cash (7% of the portfolio)

Our high cash holdings (we are usually 100% invested) gives us the opportunity to invest in new opportunities or strengthen existing convictions should markets continue to be volatile.

Carmignac Investissement A EUR Acc

ISIN: FR0010148981

Lower risk Higher risk

Recommended
minimum
investment horizon

1	2	3	4*	5	6	7

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.