Carmignac Investissement: Letter from the Fund Manager

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-10.46%

Carmignac Investissement's performance

in the 2nd quarter of 2022 for the A EUR Share class

-10.24%

Reference indicator's performance

in 2nd quarter of 2022 for MSCI World ACWI

-19.05%

Performance of the Fund Year to date

versus -13.18% for the reference indicator

In the second quarter of 2022, Carmignac Investissement recorded a performance of -10.46% in line with its reference indicator[1] (-10.24%).

Market environment

Inflation showed no sign of abating over the quarter, driven by higher gas prices, ongoing supply disruptions, as well as both a tight job and a hot rental market in the US. As a result, Central banks in developed markets pursued increasingly hawkish monetary policies or rhetoric, with the Federal reserve increasing its key interest rate by 75 bp – a first in 27 years - with Fed Funds ranging from 1.5 to 1.75%, and the ECB preparing markets for a lift off this July, a first in more than 10 years. The outlook for tightening liquidity has led increased recession risks and triggered bouts of volatility in the rates market. In turn, higher rates weighed on valuations, resulting in a broad-based sell-off in equity markets. Richly valued segments were the most impacted, as illustrated by the tech-heavy Nasdaq's 22% retreat over the period, the biggest quarterly loss since 2008. However, defensive sectors like healthcare and consumer staples proved more resilient as growth concerns rose. In China, while the resurgence of Covid cases at the beginning of the period and related mobility restrictions did weigh on the performance of the region, prospects of a shift towards more support on the regulatory, monetary and/or fiscal front fueled a rebound as the quarter progressed.

How did we fare in this context?

Carmignac Investissement recorded a negative performance over the period, in line with its reference indicator. Main absolute contributors to returns can be summarized as followed:

- **Positive contribution** of our decision to be more exposed to the healthcare sector and stock selection within the later (Humana, Eli Lilly, Elevance Health) as well as from our relative preference for Chinese equities markets and stock selection in the country (JD.com, Haier, Wuxi Biologics).
- **Negative contribution** linked to the broad-based market drawdown, notably on the tech and visible growth side including some stock-specific issues (Uber).

Despite the general drawdown that we suffered from, we continued to actively manage the portfolio throughout the quarter, to both strengthen its resilience as well as optimize our performance drivers for the next leg up in equity markets. We rebalanced the portfolio towards more defensive “essential” sectors, stepping up our exposure to the consumer staples and healthcare sectors (+3.5% and +1.8% over the quarter, in % of assets). This move proved rewarding, both from an asset allocation and stock selection standpoint, as illustrated by the positive contribution of our healthcare names (Elevance Health, Humana, Eli Lilly) and our consumer staples (Constellation, Diageo, Nestle) in one of the most severe selloffs on record. Similarly, we lowered our exposure to expensive high beta sectors notably found in the technology space, by exiting Netflix and Block, in order to reduce further the global book’s average valuation given the volatile interest rate environment. Uber particularly weighed on performance this quarter, on the back of rising oil prices and wage pressures. We have reduced our investment in the name, until those headwinds stabilize, and the earnings path improves. We nevertheless took advantage of the large derating to re-enter some of our historical long-term convictions, including in the cloud software sector (ServiceNow, Oracle), but also in China. We almost doubled our exposure to the region over the quarter as the regulatory backdrop improved while the government has been more vocal about its intention to support growth going forward. This rebalancing supported performance. Finally, we took advantage of the setback in the energy sector to increase our exposure from to 4 to 5% (in % of assets), by increasing our sizing in Totalenergies and Schlumberger.

What is our outlook for the coming months?

Central banks of developed countries are not showing any sign yet that they are moving away from aggressive tightening. This dynamic, along with increasing signs that the global economy is slowing rapidly should shift investors' focus from inflation risk to recession risk. As a result, while equity valuations suffered from rising rates in the first half of the year, corporate earnings should be the driving force of equity markets returns going forward. However, while earnings showed resilience over the Q1 earning season and since then prospects of future earnings have started to be increasingly questioned. Going forward earnings are expected to come under increasing downward pressure as the impact of higher costs and questions over companies' capacity to pass it onto consumers are yet to be reflected in their margins in a context of lower demand as the economy slows. Consequently, we focus our investments on company stocks with both contracted valuations and resilient earnings trajectories. This view underpins why we have reduced exposure to semi-conductor names with cycle-sensitive earnings in favor of cloud software names, which on top of having attractive and recurring revenue streams, now benefit from much lower valuations (Oracle, ServiceNow, Microsoft). Similarly, our increased Chinese exposure benefits from resilient earnings coupled with low valuations – Chinese equities derating cycle being more a year long.

Overall, we think a focus on quality growth companies, characterized by high and stable margins and/or solid growth prospects, should support performance going forward – even more so as upward pressure on longer term interest rates have gone a long way already. Among quality growers, we continue to favor more defensive "essential" sectors, notably within consumer staples and healthcare, that have started regaining momentum as markets shift their focus on slowing growth. We balance out this core positioning with an exposure to the energy sector. Despite being cyclical, our view is that demand recovery and tightness in supply should lead to a multiyear cycle of capital spending by oil companies. Besides, oil and gas continue to satisfy a substantial portion of energy demand, while renewables continue to grow, displacing coal. Certain traditional energy companies operating in this transition are thus particularly well positioned in the current environment.

These medium-term adjustments to our portfolio should not overshadow the numerous long-term opportunities that are rebuilding and that we intend to capitalize on. With contracted valuations and steady earnings growth, these convictions are better positioned to materialize, especially since markets are bound to be more fundamentally driven going forward. Within our broad international investment universe, we have identified four major sustainable thematic areas, built on secular growth trends as well as positive quantifiable impacts on societies and the environment.

These core thematic areas revolve around 1)**Consumer trends** (31%), that pertain to shifting habits in consumption, including online trends as well as the polarization of spending (JD.com, Hermes). 2) **Technological enablers** (14%), that relates to the ecosystem around digitization, including cloud & software (Microsoft, Palo Alto), **Demographic & societal developments** (27%), that encompasses companies supporting societies via products and services linked to healthcare, education as well as financial services (Elevance Health, Novo Nordisk), **Climate change** (10%), that includes companies supporting the energy transition or offering products suited to this transition (Orsted, TotalEnergies).

[1] Reference indicator: MSCI ACWI (USD) (net dividends reinvested). As of 01/01/2013, the reference indicators for the shares are calculated net dividends reinvested. Source: Carmignac, 30/06/2022

Carmignac Investissement

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Carmignac Investissement A EUR Acc

ISIN: FR0010148981

Lower risk Higher risk

Recommended minimum investment horizon

1	2	3	4*	5	6	7

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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.

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The Fund presents a risk of loss of capital.

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