QUARTERLY REPORT

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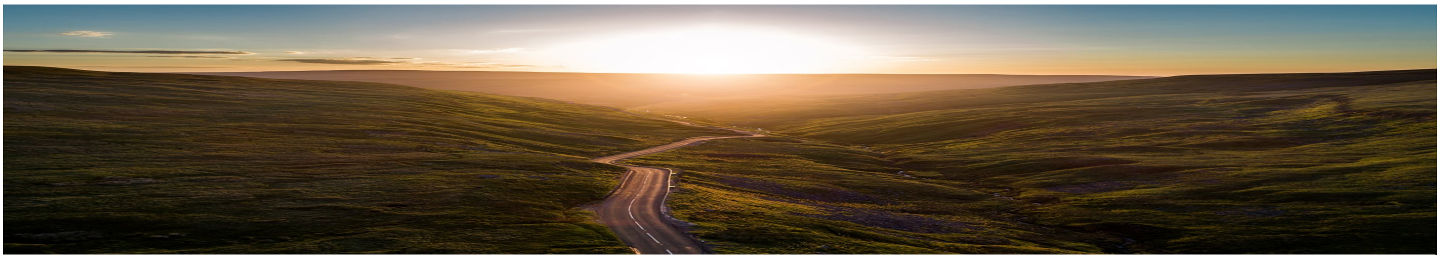

# Carmignac Patrimoine: Letter from the Fund Manager

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-5.15%

Carmignac Patrimoine's performance

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

-5.32%

Reference indicator's performance

in the 2nd quarter of 2022 for 40% MSCI ACWI (USD) (Reinvested net dividends) + 40% ICE BofA Global Government Index (USD) + 20% ESTER capitalised. Quarterly rebalanced

-12.22%

Performance of the Fund Year to date

versus -8.28% for the reference indicator

In the second quarter of 2022, Carmignac Patrimoine recorded a performance of -5.15%, in line with its reference indicator[1] (-5.32%).

## Market environment

Inflation has shown no sign of abating over the quarter, driven by high commodity prices, ongoing supply disruptions, as well as both a tight job and a hot housing market in the US. As a result, Central banks in developed markets pursued increasingly hawkish monetary policies, with the Federal reserve increasing its key interest rate by 75 bp to a range between 1.5 and 1.75%, and the ECB preparing markets for a July hike, a direction not taken since 2011. Towards the end of the period, growth showed first signs of weakness, illustrated by low PMI readings, shifting market's focus towards the economic slowdown. Higher rates weighed on risky assets, leading to lower equity valuations (ex-energy) as well as credit spreads' widening. Recession fears in June provided some relief on rates, allowing markets to catch their breath. In China, the resurgence of Covid cases at the beginning of the period led to strict lockdowns, stalling further its economy, and weighing on the performance of the region. Towards the end of the period, an improvement of the health situation coupled with hopes of stimulus and an easing of regulatory measures fuelled a rebound of the region.

## How did we fare in this context?

Carmignac Patrimoine recorded a negative performance over the period. Our contributors to performance can be summarized as followed:

- **Positive contribution** of our equity and credit hedges, as well as defensive stock selection within healthcare
- **Negative contribution** of our overall equity and credit book, our positions on longer maturity US bonds (reflecting lower future growth) as well as our protections on peripheral debt (on the back of increased fragmentation risks)

Our approach entering this quarter was one of caution. Indeed, we expected the Federal reserve to tighten "whatever it took"- regardless of the impacts on financial assets. Meanwhile, we expected the ECB to find itself in a very tough spot, having to address inflation in a much dire growth and much more indebted environment. We thus maintained a very defensive approach, characterized by a low equity exposure (13% on average over the period), reduced credit investments coupled with increased CDS protections. **This positioning was very efficient in compensating for the broad equity losses. However, it was insufficient to mitigate the widening of credit spreads, who suffered the double blow of both higher interest rate and credit risk.**

On the equity side, our rebalancing towards more defensive stocks proved rewarding, as illustrated by the positive performance of our healthcare names (Eli Lilly, Novo Nordisk). However, our gold allocation, increased over the period in order to manage geopolitical and economic risks, failed to act as a safe haven. On the fixed income side, we were positioned for a flattening of the US yield curve, as we anticipated higher short-term rates on the back of policy normalization to start weighing on growth, reflected in longer maturities. While the curve did flatten, longer term maturities ended up higher as well, resulting in a parallel shift of the yield curve. Finally, a tighter ECB monetary policy reignited fragmentation risks: countries like Italy that were able to borrow at low rates were seen as vulnerable to higher "normalized" interest rates, given their debt to GDP ratio has skyrocketed in recent years. We had consequently initiated short positions on Italian debt to protect against such risk, which didn't materialize as the Central bank managed to reassure markets towards the end of the period.

## What is our outlook for the coming months?

Central banks are not showing any sign yet that they are moving away from aggressive tightening. In fact, Jerome Powell has reiterated in front of congress that he'd be reluctant to lower interest rates until there is clear evidence that inflation is receding. The Bank of International Settlement also warned that "Central banks should raise rates sharply or risk high-inflation era". In Europe, addressing the fragmentation risks signals the ECB's intentions to follow a strict tightening path, in the wake of the Federal reserve. However, inflation will have to be delt with all the while growth increasingly weakens, dragged by a lasting war in Ukraine, as well as ongoing and prospective sanctions. Central banks are thus stuck between a rock and a hard place, and 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. In China, the government's supportive policy mix, likely to step up as the health situation improves, puts the country in an appreciably different and much better position than its western peers.

On the equity side, after market valuations suffered from rising rates in the first half of the year, corporate earnings should be the driving force of equity markets going forward. However, while earnings have shown resilience since the beginning of the year, they should globally come under pressure as the impact of higher costs and companies' capacity to pass it onto consumers are yet to be reflected in their margins. As a result, our focus on quality companies, characterized by high and stable margins and/or solid growth prospects, should support performance going forward, especially since most of them have considerably derated since the beginning of the year. We favor defensive sectors with quality attributes, notably within healthcare, consumer staples and software, that have gained momentum as markets shift their focus to slowing growth. We balance out this core positioning with an overweight in the energy sector. Despite the sector 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. Finally, we have stepped up our Chinese exposure, which we're now overweight vs reference indicator, as we see momentum building there on the back of more favorable policy and regulatory mix, magnified by the massive derating of the past months.

On the fixed income side, our view is that credit markets have to a great extent integrated both tighter monetary policies and recession risks, as illustrated by the extreme and historical spike in volatility since the beginning of the year. Underneath the surface, this has provided various specific opportunities which we are steadily gaining exposure to, while still covering the overall market risk. In fact, we find the yield on some of those securities largely compensate for the current volatility. Within credit, we notably favor subordinated financial debt, as European banks' recapitalization has made them more resilient, while higher yields have improved their profitability. We also favor CLOs (collateralized loan obligation), due to their floating rate structure backed by investment grade loans (BBB) that offer an interesting carry. On the sovereign front, we stay cautious on Eurozone bonds given the ECB's willingness to proceed with its monetary tightening. We currently hold short positions on Italian and German debt. Within Emerging markets, we like countries that benefit from onshoring/reshoring dynamics (the practice of bringing back manufacturing closer to one's country), commodity exporting as well as positive real yields. For example, at current levels, we find Mexican bonds attractive, especially since the oil-exporting country is well positioned to take over part of Chinese export of goods to the US.

Overall, the end of accommodative policies means the return of volatility. We believe it calls for a flexible asset allocation, as well as an active management of risks. In this regard, we maintain our cautious approach going into the third quarter, characterized by a low equity exposure (around 17%), a high cash allocation (29%) that we stand ready to deploy as markets continue to dislocate, as well as an exposure to safe-haven assets like the US dollar (40%) and gold (3%), the latter tending to perform well in unstable geopolitical and inflationary environments. Underneath this cautiousness, we are preparing Carmignac Patrimoine for the market recovery that will eventually take place, effectively sowing the seeds of future major performance drivers.

[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).

Carmignac Patrimoine

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## Carmignac Patrimoine A EUR Acc

*ISIN: FR0010135103*

Recommended minimum investment horizon

Lower risk Higher risk

| 1 | 2 | 3* | 4 | 5 | 6 | 7 |
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### 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.