QUARTERLY REPORT

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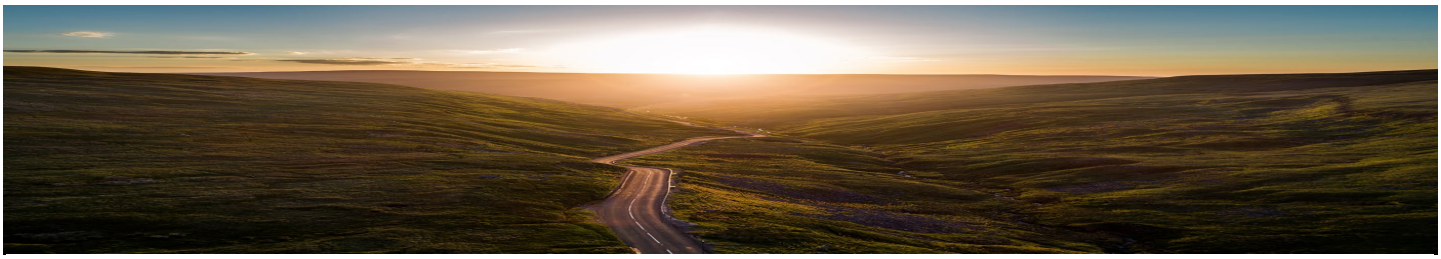

Carmignac Patrimoine : Letter from the Fund Managers

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-7.45%

Carmignac Patrimoine's performance

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

-3.12%

Reference indicator's performance

in the 1st quarter of 2022 for 40% MSCI ACWI (USD) (Reinvested net dividends) + 40% ICE BofA Global Government Index (USD) + 20% ESTER capitalised.

-7.45%

Performance of the Fund

Year to date versus -3.12% for the reference indicator.

Carmignac Patrimoine posted a negative performance in a quarter characterized by a general and indiscriminate decline in risky assets, chief among them equities and corporate debt.

Market Review

Our view going into 2022 was that growth would decelerate from high recovery levels, yet that inflation would be persistently higher. In other words, we saw the world entering a phase of slowflation.

Above all a humanitarian crisis, the Ukraine conflict and resulting sanctions led to an inflationary shock, with an appreciation of broad commodity prices. As a result, markets which were adjusting to an environment of slowflation increasingly integrated the risk of a stagflation over the quarter, with exacerbating decelerating and inflationary forces.

Over the quarter, this environment resulted in the general and indiscriminate decline in risky assets, chief among them equities and corporate debt, with the latter recording its worst performance since March 2020. The Fed's pivot at the beginning of the year triggered a rapid rise in interest rates and a rotation away from growth sectors. The energy and materials sectors were the only gainers, driven by supply imbalances and resulting higher commodity prices. Gold and the US dollar played their role as safe-haven assets amid uncertainty around the extent of the war.

Performance Review

Over the period, Carmignac Patrimoine posted a negative performance. If our portfolio construction and hedging strategies have been helpful in supporting the performance in adverse markets, we suffered the majority of our losses from our convictions around the Russian complex.

The main contributors to absolute returns were:

1. Russia

We had initiated a position on the Russian complex in March of 2020, with a long-term view on the basis of both financial and extra-financial (positive dynamics on several criteria, notably on the environmental pillar), as we do in all circumstances. Although limited to ~5%, our exposure to Russian sovereign debt and mostly credit has strongly penalized the strategy's performance over the period. The sudden rise in these tensions led us to implement strategies to mitigate risks, which did not fully offset the losses related to our Russian exposure.
We have decided not to buy any Russian securities until further notice, and are committed to managing the exit of securities still present in the portfolio when market conditions will allow to preserve the interest of our clients, our primary objective.

2. Equity rotation

The prolongation of the value rotation environment in the wake of the Fed's pivot along the rapid rise in interest rates penalized part of our long-term bottom-up equity portfolio focused on quality growth stocks as well as defensives. We have continued throughout the quarter to reduce our exposure to stocks sensitive to a rising rate environment.
While the rebalancing of our exposure to sectors positively correlated to inflation and higher interest rates (energy and banks) helped somewhat, it was not enough to offset losses incurred elsewhere.

3. Positive contribution of our hedges in a volatile period

Over the period, we managed to dampen the effects of falling equity markets, rising rates and widening credit spreads, thanks to an overall cautious positioning.
When the conflict started, we positioned the strategy for a full risk-off environment, further reducing the equity exposure (down to a low of 5%), buying positions on core rates and gold, and stepping up our exposure to the USD.

Outlook

Our view is that the impacts that the Ukrainian conflicts -that resulted in higher inflation- are having on global growth are steadily but not fully integrated by markets.

In Europe, while headline inflation is likely to remain close to 7% this year, survey data point to a major shock to corporate and consumer confidence from the expected real income squeeze. On the bright side, we have seen some form of fiscal response, notably in countries like France and Spain, and additional initiatives are being discussed.

The US are less economically exposed to the conflict than Europe, but the effects of tighter financial conditions and inflation will likely continue chipping away at consumers' savings and purchasing power. In fact, J.Powell reaffirmed that the Federal reserve would normalize monetary policy "whatever it takes".

In China, there are hopes that the country will ultimately support growth with hawkish fiscal and monetary policies. If there has been progress, these are just baby steps in what China could do to lift its economy -and support the rest of the world-, especially given its zero-Covid policy in light of rising infections.

From a microeconomic standpoint, companies will, in the next few months, be judged on their ability to weather high and lasting inflation. Indeed, when producer prices rise at a faster rate than consumer prices, it highlights companies' limited ability in passing their higher input costs on to consumers.

Positioning

The market environment has never been so full of both risks and opportunities. The end of extraordinary monetary policies means the end of indiscriminate market increases, and the potential of true alpha generation. The end of deeply negative interest rates and asset class correlation as we know it reinforces the importance of a flexible allocation to optimize performance as well as an active management of risks.

With that in mind, here's how Carmignac Patrimoine expects to deliver returns going forward:

Overall:

We believe an optimal portfolio construction in this environment balances out both investments whose performance is correlated to rising rates/inflation and investments that are resilient at times of slower growth. In parallel to this Barbell strategy, we hold a strong cash allocation that allows us to build up new positions or strengthen existing ones. Finally, we use all the tools at our disposal to manage the multiple risks that have arisen in this new market set-up.

On the equity side:

In line with our view of slowing growth, we favor **defensive names**, those offering essential goods and services. 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.**
We have an **overweight in the oil/oil services sectors** as geopolitical tensions and supply pressures are supporting energy prices and the ecosystem around them. Taking into account our ESG standards, our exposure revolves around **best-in-class traditional companies** as well as **renewables**, which are benefiting from renewed interest as societies are looking to lower their exposure to Russian exports.
Finally, we hold an exposure to sectors that benefit from **post-Covid reopening demand like travel** as consumers are eager to enjoy reopening economies after two years of Covid-related mobility restrictions.

On the fixed income side:

Credit spreads have widened across the board, providing interesting **individual opportunities** notably in the **oil & gas industry**, but also among **financials**, that suffered from contagion fears after the start of the conflict and now offer much higher yields.
We also favor **CLOs** (collateralized loan obligation), due to their floating rate structure backed by investment grade loans (BBB) that offer an interesting carry.

Risk management:

On the interest rate side, we hold a rather **neutral positioning**.
We also continue to **actively manage the equity exposure**, by being cautious on vulnerable equity segments.
On top of our **high cash allocation**, we keep an exposure to **safe-havens assets** like the **dollar** (31%) and **gold** (2%), the latter also performing well in inflationary environments.

Carmignac Patrimoine

Looking for best asset allocation in all market conditions

Discover the fund page

Carmignac Patrimoine A EUR Acc

ISIN: FR0010135103

Recommended minimum investment horizon

Lower risk Higher risk

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.

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.