

← Lower risk			Higher risk →			
Potentially lower return			Potentially higher return			
1	2	3	4	5	6*	7



Xavier Hovasse

David Young Park

## Carmignac Emergents

Emerging market equity fund combining a fundamental top-down approach with a disciplined bottom-up analysis in order to identify the best opportunities within its investment universe by seeking companies offering long-term growth potential and attractive cash generation, in underpenetrated sectors and in countries with healthy fundamentals. The Fund aims to outperform its reference indicator over 5 years with lower volatility.

**Carmignac Emergents** was down -3.72% over the third quarter of 2018, compared to a -0.58% decrease in its reference indicator. That takes the Fund's performance since the start of the year to -15.04%, versus -4.55% for its reference indicator.

The pressure on emerging markets continued during the quarter, beginning with the new tariffs slapped on Chinese imports by the United States. Though initially targeting goods valued at \$50 billion, the 25% levy was extended in September to cover \$250 worth of Chinese imports. China has responded with tit-for-tat tariffs on US imports, heightening the risk of trade-war escalation between the world's two leading economic powers. The impact of those moves on growth is already being felt in Asia, where PMI surveys - particularly New Exports indices - show declines for the past three months. The ongoing trade spat has hurt our Chinese equity portfolio (27.9% of the Fund's assets), including the behemoth **Tencent**, our largest single position (6.7% of total assets). The domestic companies listed in Shanghai that we hold have also taken a beating. Both **Hikvision**, the world's number-one video surveillance firm, and **Zhengzhou Yutong Bus**, the leading global bus manufacturer, have experienced major share-price corrections even though their earnings were in line with our expectations.

We have taken advantage of this sell-off in China to add two new names to our portfolio. The first one is **Wuxi Biologics**, China's top biologics drug-maker. In our view, their dominance in a booming domestic market and their expanding global market share open up attractive growth prospects. Furthermore, due to their product development and marketing cycle, Wuxi offers a more predictable earnings trajectory than conventional pharma companies. We consider a 40% growth rate in earnings between 2018 and 2025 a distinct possibility. Our second new name is **Midea**, a household appliance maker. Firmly positioned in a priority area for the Chinese government's drive to move up the industrial value chain, Midea stands at the leading edge of smart and connected product R&D. The company has also bought out German robot manufacturer Kuka in order to achieve its goal of joining the world's automation heavyweights.

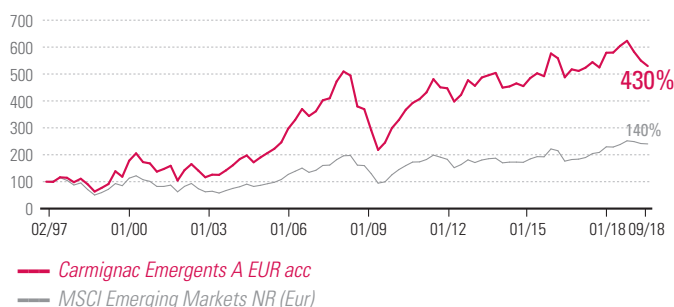
An additional factor working against emerging markets is Turkey's combined economic and political turmoil. In late June, the freshly re-elected President Erdogan opted for unorthodox economic and monetary policy, pressuring the central bank to keep interest rates on hold. At the same time, the United States announced economic sanctions against the country because Ankara refused to release Andrew Brunson, an evangelical pastor imprisoned on charges of terrorism. With the geopolitical climate less favourable to emerging economies and both the greenback and US interest rates heading upwards, financial markets walked away from the Turkish lira, which lost 24% of its value over the third quarter. Though we have negligible exposure to Turkey (0.7% of the Fund's assets), the depreciation still affected us, given

that the lira crisis spilled over to the Argentine peso, driving it down by 30% against the euro during the period. We have accordingly scaled back our exposure to Argentine domestic stocks (in finance and cement-making, not including **Mercadolibre**) to a mere 3.1%. Our motivation for not closing out those positions completely is that we expect the country to stage a turnaround in 2019. For one thing, Argentina has been granted a \$57 billion financing package by the IMF. For another, it will be included as of next May in the MSCI Emerging Markets Index, a change that should benefit our Argentine holdings by attracting inflows from passive funds equal to some 17% of those companies' aggregate free float. Moreover, the outlook seems bright for the October 2019 presidential election now that Cristina Kirchner, head of the Peronist opposition, has been discredited by revelations of corruption in office. The candidate of the Cambiemos governing coalition or another pro-reform, pro-IMF candidate is therefore likely to win.

All eyes in Latin America are now on the Brazilian presidential election, where the far-right candidate Bolsonaro is running against the far-left candidate Haddad. Brazil's pension system is in danger of collapsing unless it is reformed swiftly. As it is hard to tell at this stage whether either of those two candidates is willing or politically able to carry out such a reform, we are sticking to our cautious stance. We currently have 4.0% exposure to Brazil, compared to 6.2% for the Fund's reference indicator.

Another major factor this past quarter has been the steady rise in oil prices, driven by supply constraints due to sharply falling output in Iran and Venezuela above all (see the **Carmignac Portfolio Commodities** quarterly report). Higher crude prices work to the advantage of specific producers like Russia (4.9% of the Fund's assets) and the Middle East, where we are invested in **Emaar**

### Performance of the fund since its launch



From 01/01/2013 the equity index reference indicators are calculated net dividends reinvested. Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding applicable entrance fee due to the distributor).

\* Risk scale from 1 (lowest risk) to 7 (highest risk); risk 1 doesn't mean an investment without risk. The risk category associated with this fund is not guaranteed and may change with time.

**Properties** in the United Arab Emirates. On the other hand, they are damaging to India, where a full 11.5% of our holdings are concentrated. Given the country's high dependence on imported oil, a \$10 hike in oil prices will increase its current-account deficit by an amount equal to 0.7% of GDP. This deficit is therefore likely to exceed 3% of GDP this year, and when that threshold has been reached in the past, the Indian equity market has gone into correction mode. We have therefore moved to protect our Indian portfolio for the short term with currency hedges and equity-market hedges ahead of a possible market adjustment.

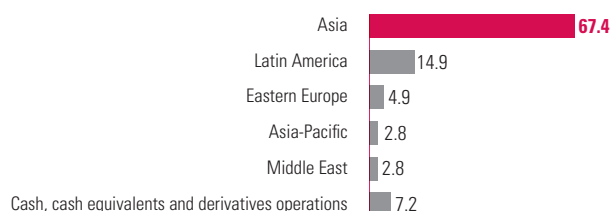
In sum, emerging markets are taking a hit from the current "alignment of the stars" - a combination of rising US interest rates, dollar appreciation and major political tensions pitting the United States against Russia, Turkey and China. It is worth noting, however, that the primary cause of this correction is US politics and that the upcoming mid-term elections could offer an attractive entry point for investors looking for long-term exposure to EM growth stocks.

Source: Bloomberg, Carmignac, Bank of America Merrill Lynch, Goldman Sachs Research, 9/28/2018.

Here are some of our best-performing stocks in the third quarter:

Stocks	Performance
Samsung SDI, Electronic components manufacturer, South Korea	+21%
Taiwan Semiconductor, Semiconductors, Taiwan	+21%
Grupo Banorte, Banking, Mexico	+16%
MercadoLibre Grupo Banorte, Internet software and services, Argentina	+14%
Astra International, Carmaker, Indonesia	+11%

### Geographic breakdown (derivatives excluded) (%)



### Statistics (%)

	1 year	3 years
Fund volatility	13.69	11.17
Benchmark volatility	13.91	11.07
Sharpe ratio	-0.88	0.28
Beta	0.90	0.90
Alpha	-0.27	-0.54

Calculation period: weekly (1 year) and monthly (3 years).

### Quarterly gross performance contribution (%)

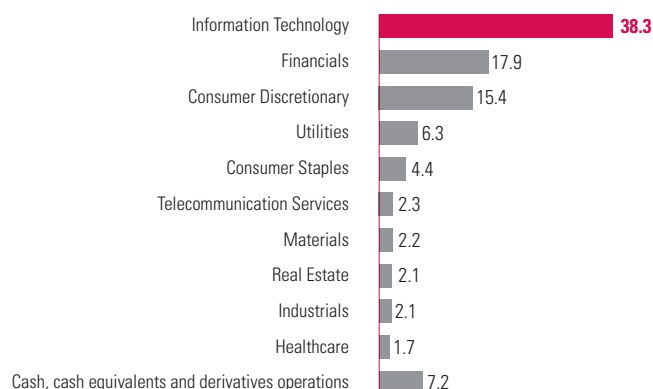
Equity Portfolio	Equity Derivatives	Currency Derivatives	Total
-2.98	-0.78	0.40	-3.36

### Cumulative performance (%)

	Since 29/12/2017	3 months	6 months	1 year	3 years	5 years	10 years	Since the first NAV
<b>Carmignac Emergents A EUR acc</b>	<b>-15.04</b>	<b>-3.72</b>	<b>-9.17</b>	<b>-12.39</b>	<b>8.57</b>	<b>16.71</b>	<b>81.73</b>	<b>429.58</b>
MSCI Emerging Markets NR (Eur)	-4.55	-0.58	-3.48	0.96	36.32	39.18	85.23	140.31
Category average*	-6.56	-1.47	-4.96	-1.87	29.69	31.60	77.16	229.62
Ranking (quartile)	4	4	4	4	4	4	2	1

From 01/01/2013 the equity index reference indicators are calculated net dividends reinvested. \* Global Emerging Markets Equity. Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding applicable entrance fee due to the distributor). Reference to certain securities and financial instruments is for illustrative purposes to highlight stocks that are or have been included in the portfolios of funds in the Carmignac range. This is not intended to promote direct investment in those instruments, nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication. The portfolios of Carmignac funds may change without previous notice.

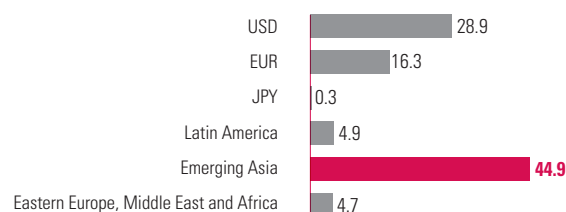
### Sector breakdown (derivatives excluded) (%)



### Value at Risk (%)

	Fund	Reference indicator
99% - 20 days (2 years)	7.77	7.24

### Net currency exposure of Euro share classes (%)



## EQUITY MANAGEMENT

HOLDINGS CARMIGNAC EMERGENTS AT 28/09/2018			Price in currencies	Total value (€)	% of net assets
<b>Cash, cash equivalents and derivatives operations</b>				<b>61 970 813.35</b>	<b>7.18</b>
Cash (including collateral cash from derivative positions)				61 970 813.35	7.18
<b>Equities</b>				<b>801 392 042.62</b>	<b>92.82</b>
<b>Asia-Pacific</b>				<b>24 411 605.53</b>	<b>2.83</b>
673 014	LINE CORP (Japan)	Information Technology	42.13	24 411 605.53	2.83
<b>Latin America</b>				<b>128 713 027.95</b>	<b>14.91</b>
260 948	BANCO MACRO (Argentina)	Financials	41.37	9 294 376.89	1.08
992 851	CIA DE ENER. ELEC. PAULISTA (Brazil)	Utilities	58.46	12 512 977.00	1.45
5 639 246	GRUPO BANORTE (Mexico)	Financials	135.30	35 129 827.08	4.07
1 584 493	GRUPO SUPERVIELLE SA CL-B (Argentina)	Financials	7.67	10 463 246.93	1.21
941 764	LOMA NEGRA CIA INDUSTRIAL AR (Argentina)	Materials	8.84	7 167 622.69	0.83
110 512	MERCADOLIBRE INC (Argentina)	Information Technology	340.47	32 394 335.46	3.75
5 044 572	TRANSMISSORA ALIANCA (Brazil)	Utilities	20.00	21 750 641.90	2.52
<b>Asia</b>				<b>581 954 265.32</b>	<b>67.41</b>
602 224	58.COM (China)	Information Technology	73.60	38 160 728.71	4.42
5 355 820	AIA GROUP LTD (Hong Kong)	Financials	69.90	41 191 135.98	4.77
4 536 369	AMBUJA CEMENTS (India)	Materials	223.55	12 044 413.50	1.40
25 678 899	ASTRA INTERNATIONAL (Indonesia)	Consumer Discretionary	7 350.00	10 904 720.36	1.26
6 231 141	BHARTI INFRAEL LTD (India)	Telecommunication Services	262.95	19 460 033.11	2.25
41 014 732	DALI FOODS GROUP CO LTD (China)	Consumer Staples	5.63	25 406 737.10	2.94
2 728 859	ENN ENERGY HOLDINGS (China)	Utilities	68.00	20 416 938.93	2.36
5 615 708	FUYAO GROUP GLASS INDUSTRY-A (China)	Consumer Discretionary	25.45	17 883 301.46	2.07
4 615 061	HANGZHOU HIKVISION DIGITAL-A (China)	Information Technology	28.74	16 596 618.18	1.92
977 143	HDFC BANK (India)	Financials	2 006.05	23 281 045.92	2.70
281 404	HERO MOTOCORP LTD (India)	Consumer Discretionary	40.46	9 803 519.36	1.14
1 070 431	HOUSING DEVELOPMENT FINANCE (India)	Financials	1 754.50	22 305 638.49	2.58
254 439	HYUNDAI MOTOR (South Korea)	Consumer Discretionary	129 500.00	25 574 361.83	2.96
1 573 593	KANGWON LAND (South Korea)	Consumer Discretionary	28 700.00	35 053 038.40	4.06
381 482	MEITUAN DIANPING-CLASS B (China)	Information Technology	68.75	2 885 674.72	0.33
2 100 464	MIDEA GROUP CO LTD-A (China)	Consumer Discretionary	40.30	10 591 944.14	1.23
1 042 150	SAMSUNG ELECTRONICS (South Korea)	Information Technology	46 450.00	33 225 179.94	3.85
140 488	SAMSUNG SDI CO (South Korea)	Information Technology	258 500.00	28 187 147.90	3.26
1 781 015	TAIWAN SEMICONDUCTOR (Taiwan)	Information Technology	44.16	67 713 837.62	7.84
1 618 792	TENCENT HOLDINGS (China)	Information Technology	323.20	57 565 598.24	6.67
2 083 762	UNITED SPIRITS LTD (India)	Consumer Staples	514.30	12 728 207.51	1.47
4 359 400	VIPSHOP HOLDINGS ADR (China)	Consumer Discretionary	6.24	23 420 280.67	2.71
1 707 283	WUXI BIOLOGICS (China)	Healthcare	79.15	14 868 154.18	1.72
6 910 978	ZHENGZHOU YUTONG BUS CO-A (China)	Industrials	14.67	12 686 009.07	1.47
<b>Eastern Europe</b>				<b>42 525 717.74</b>	<b>4.93</b>
9 935 366	MOSCOW EXCHANGE (Russia)	Financials	97.20	12 694 700.12	1.47
1 053 473	YANDEX (Russia)	Information Technology	32.89	29 831 017.62	3.46
<b>Middle East</b>				<b>23 787 426.08</b>	<b>2.76</b>
15 447 939	EMAAR PROPERTIES PJSC (United Arab Emirates)	Real Estate	4.95	17 923 773.35	2.08
7 852 905	ENKA INSAAT VE SANAYI (Turkey)	Industrials	5.21	5 863 652.73	0.68
<b>Portfolio value</b>				<b>801 392 042.62</b>	<b>92.82</b>
<b>Net assets</b>				<b>863 362 855.97</b>	<b>100.00</b>