CARMIGNAC PORTFOLIO CLIMATE TRANSITION: LETTER FROM THE FUND MANAGER

23/10/2023 | MICHEL WISKIRSKI

-8.85% Carmignac Portfolio Climate Transition performance in the 3rd quarter of 2023 for the A EUR Share class	**-0.46%** Reference indicator's[1] performance in the 3rd quarter	**-2.36%** Performance of the Fund Year to date versus +10.94% for the reference indicator

*In the third quarter of 2023, **Carmignac Portfolio Climate Transition** fell by -8.85%, while its reference indicator[1] was down -0.46%. The Fund posted a performance of -2.36% over the year to date, compared to +10.94% for its reference indicator.*

QUARTERLY PERFORMANCE REVIEW

The quarter was mainly marked by the sharp rise in American interest rates, nominal and real. The resilience of the American economic figures, excellent performance of the job market and robust salaries contributed to this increase observed over the quarter. Whilst the American economy did not weaken, the old continent remains in a more precarious situation where industrial weakness dominates, partly due to China still slowing down.

The American economy has clearly performed well during the summer period. The cumulative increase in interest rates of nearly 550 basis points over the last eighteen months does not seem to have slowed down economic activity across the Atlantic as much as expected, in fact quite the contrary. The figures confirm a certain robustness of the economy. The job market is showing fantastic resilience with a historically low unemployment rate and demand for workers still very high. Given the tensions on the job market, wages continued to trend well. All this has allowed the American consumer to maintain confidence. On the inflation side, although the disinflation dynamic of recent months has continued its course, we nevertheless observe certain components, particularly in terms of prices of certain services, which are resisting this dynamic. This resistance keeps the American monetary authorities in a delicate and cautious position, refusing to declare victory and keeping all options open. All of these elements contributed to a significant rise in interest rates, over the quarter.

The energy market has also experienced a number of developments which have fuelled the rise in interest rates. The two pillar countries of the OPEC + cartel decided to restrict oil valves from July. This increased control over the black gold market resulted in a unilateral Saudi reduction of 1 million barrels per day accompanied by a reduction in Russian supplies of 300 thousand barrels per day as well. These declines occurred even though consumption remained healthy, leading to an increase in the price of a barrel to $95 at the end of the quarter. This increase in the energy cost of black gold is not isolated; the price of gas, particularly in Europe, has also increased. Repetitive strikes on the Australian side, disrupted American liquefied natural gas production and other prolonged periods of maintenance have revived the fears of last autumn regarding the next winter gas supply.

The sharp rise in interest rates and this unexpected robustness of the American economy weighed on certain sectors of the equity market, particularly those perceived as defensive and long duration. The “utilities” sector has particularly suffered from the combination of these two phenomena. In addition, the renewable energy sector has experienced some upheavals which have weighed heavily on the entire sector. The difficulties of Siemens Energy and Orsted have weighed heavily on the wind power sector. Orsted, which we hold as an investment, was obliged to announce a provision for asset impairment relating to certain of its American offshore projects. Rising rates, ongoing logistics problems as well as uncertainties about the details of the “inflation reduction act” led the company to this unexpected announcement. If the difficulties of American projects continue to weigh heavily on the stock, the existing portfolio of wind turbines in operation as well as future European and other growth prospects should allow the stock to regain colour once the operational difficulties across the Atlantic are resolved. The wind sector is also awaiting further clarification from Siemens Energy regarding the quality problems with some of their turbines highlighted a few months ago. These uncertainties and quality problems also strongly affected our stake in the wind blade supplier TPI Composites, leader in the segment, having been heavily penalized during the quarter. If the sector has suffered from both idiosyncratic difficulties and an unfavourable macroeconomic context, its current valuation makes it very attractive from a medium to long term perspective. The market effect on this theme which represents approximately 30% of our portfolio explains the steep underperformance over the quarter.

HOW IS THE FUND POSITIONED?

The fund's composition remains largely unchanged, with a defensive positioning that retains a strong allocation to the utilities sector, through large stakes in RWE and Nextera Energy, as well as large positions in sectors such as Waste Management, which should be less sensitive to the anticipated slowdown. Our strong convictions in the semiconductor sector remain intact, with Samsung Electronics and Taiwan SemiConductor Manufacturing among our largest holdings at the end of the quarter.

WHAT IS OUR OUTLOOK FOR THE COMING MONTHS?

In the weeks and months to come, economic activity is likely to decline given the historic monetary tightening that we have just experienced. This should be favourable to equity assets that are not very sensitive to the cycle and have long duration, thus allowing many of our holdings such as RWE to recover.

[1] MSCI AC World NR (EUR).

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