



Carmignac Portfolio Patrimoine Europe: Letter from the Fund Managers

Author(s)
Marie-Anne Allier, Mark Denham

Published
April 14, 2023

Leng
5

0.91%

Performance of the Fund in 2023
vs 4.22% for the reference indicator* (A EUR Share class)

+7.2%

Volatility of the Fund over 5 year
vs +9.3% for the reference indicator* (A EUR Share class)

+24.1%

Performance of the Fund over 5 years
vs +17.6% for the reference indicator* (A EUR Share class)

***Carmignac Portfolio Patrimoine Europe A EUR Acc** gained +0.91% in the first quarter of 2023, underperforming the +4.22% rise of its reference indicator¹.*

European Markets Review

The first quarter of the year has been marked by a series of ups and downs in global markets with a shift in sentiment from a possible soft landing to concerns of a new banking crisis. Despite initial fears of a recession due to Russia's invasion of Ukraine, the European market has outperformed that of the United States, with a mild winter, fiscal stimulus packages, and the reopening of China's economy contributing to better-than-expected growth. Even if this better economic growth led to stickier inflation, European equities have rebounded, led by longer duration sectors such as luxury goods and technology. However, fixed-income markets have experienced unprecedented volatility due to central bankers' efforts to slow the economy and the need to restore liquidity in the face of banking system stress. Core rate markets have seen historical daily and intraday movements, with government bond volatility comparable to that of the great financial crisis.

Quarterly performance review

In the face of a volatile quarter, **the Fund adopted a cautious approach to portfolio construction**, which explains the underperformance compared to the market. Given the outperformance of European markets at the end of 2022 and a gloomy economic outlook, **the fund had limited exposure to equities - 20% on average** over the quarter. However, even if initially the sectoral mix was unfavorable for our stock picking, the volatility in March allowed us to catch up, as well as our tactical exposure to European banks (profit-taking at the end of February). **Our stock selection towards high-quality names supported the performance** especially our convictions in the technology (SAP, ASML), healthcare (Novo Nordisk, Lonza), or the industrial sector (Assa Abloy, Schneider Electric). On the downside, despite **efficient bond picking in credit**, our fixed income investments **suffered from our sovereign rates exposure**. Our hedging on short-term rates to protect investments against persistent inflation suffered from historically high volatility.

Outlook

On the European macro front, headline inflation is expected to decline following decreasing energy prices, **but core inflation should remain stubbornly high**, at least until the end of the first semester, due to wage increases and second-round effects. Regarding growth expectations, the tightening of financial conditions for both households and corporates is expected to lead to a slowdown in private consumption and investment.

In this context, **the ECB is stuck** between the devil and the deep blue sea. With stubbornly high core inflation, they have no other choice but to continue tightening their monetary policy despite the fact that the transmission mechanism is showing the first signs of stress (mainly in the US at the moment, which is a few months ahead). **From an economic perspective, the main risk for the ECB is to witness a form of informal wage indexing on rising prices**. As a result, there is a risk of seeing a de-anchoring of inflation expectations as negotiated wages have increased from a year-on-year increase of 3.5% in the first quarter of 2022 to nearly 5% in the fourth quarter of 2022. In this context, we expect the ECB's rate hike policy to continue for the next few meetings, and therefore act as a headwind for long-term growth.

In response to these risks, **higher uncertainty justifies a defensive stance**, outlined as follows:

On the equity side, our focus is on identifying companies that have the ability to endure a slowdown in growth. The recent tightening of financial conditions and the negative impact it could have on investment leads us to be relatively cautious about the trajectory of corporate earnings. We therefore prefer quality stocks that have the fundamentals to withstand or mitigate a decline in earnings thanks to their visibility of sales and profits.

On the government bonds side, even if we are prudent about the short end of the curve as the ECB might go further to raise rates in the next meetings, we are long duration overall via long positions on core rates as the prospect of slower economic growth is getting closer. Our long duration positioning is also justified by the potential impact of an ongoing restrictive monetary policy on long-term growth expectations. In addition, we have identified some bond selection opportunities in European government debt, such as Greece, which offers attractive valuations and solid fundamentals.

On the corporate bonds side, the stress around the banking sector has led to a massive widening of the spreads, especially for financials. We took advantage of this widening to lift our credit hedges. Our credit exposure is around 12% of the portfolio, including 2% exposure to the sub debt across solid players (e.g. BNP, Natwest).

Management of the tailwind risk: After a decade of loose and accommodating monetary policies, the current state of the system indicates that caution is still advisable as cracks are beginning to emerge. Therefore, we maintain some hedges on equity indexes (net equity exposure at 30% to begin the quarter).

Source: Carmignac, Bloomberg, data as of 30/03/2023. Performance of the A EUR Acc share class ISIN code: LU1744628287. Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. ¹ Reference Indicator: 40% STOXX Europe 600 (Reinvested Net Dividends) + 40% ICE BofA All Maturity All Euro Government + 20% ESTER capitalized. Quarterly Rebalanced. Until 31/12/2021, the reference indicator was 50% STOXX Europe 600, 50% BofA Merrill Lynch All Maturity All Euro Government Index. The performances are presented using the chaining method.

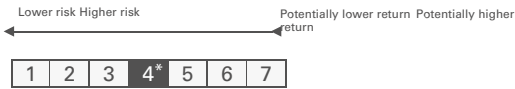
An all-weather European Fund

Discover the fund page

Carmignac Portfolio Patrimoine Europe A EUR Acc

ISIN: LU1744628287

Recommended
minimum
investment horizon



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.



Marketing communication. Please refer to the KID/KIID, prospectus of the fund before making any final investment decisions. This document is intended for professional clients.

This material may not be reproduced, in whole or in part, without prior authorisation from the Management Company. This material does not constitute a subscription offer, nor does it constitute investment advice. This material is not intended to provide, and should not be relied on for, accounting, legal or tax advice. This material has been provided to you for informational purposes only and may not be relied upon by you in evaluating the merits of investing in any securities or interests referred to herein or for any other purposes. The information contained in this material may be partial information and may be modified without prior notice. They are expressed as of the date of writing and are derived from proprietary and non-proprietary sources deemed by Carmignac to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by Carmignac, its officers, employees or agents.

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor). The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged.

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. The reference to a ranking or prize, is no guarantee of the future results of the UCIS or the manager.

Morningstar Rating™ : © Morningstar, Inc. All Rights Reserved. The information contained herein: is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Access to the Funds may be subject to restrictions regarding certain persons or countries. This material is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the material or availability of this material is prohibited. Persons in respect of whom such prohibitions apply must not access this material. Taxation depends on the situation of the individual. The Funds are not registered for retail distribution in Asia, in Japan, in North America, nor are they registered in South America. Carmignac Funds are registered in Singapore as restricted foreign scheme (for professional clients only). The Funds have not been registered under the US Securities Act of 1933. The Funds may not be offered or sold, directly or indirectly, for the benefit or on behalf of a «U.S. person», according to the definition of the US Regulation S and FATCA. The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital.

The Funds' prospectus, KIDs, NAVs and annual reports are available at www.carmignac.com, or upon request to the Management Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The French investment funds (fonds communs de placement or FCP) are common funds in contractual form conforming to the UCITS or AIFM Directive under French law.

In France, Luxembourg, Sweden: The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital. The Funds' prospectus, KIDs, NAV and annual reports are available at www.carmignac.com, or upon request to the Management.

In the United Kingdom: the Funds' respective prospectuses, KIIDs and annual reports are available at www.carmignac.co.uk, or upon request to the Management Company, or for the French Funds, at the offices of the Facilities Agent at BNP PARIBAS SECURITIES SERVICES, operating through its branch in London: 55 Moorgate, London EC2R. This document was prepared by Carmignac Gestion, Carmignac Gestion Luxembourg or Carmignac UK Ltd. FP Carmignac ICVC (the "Company") is an Investment Company with variable capital incorporated in England and Wales under registered number 839620 and is authorised by the FCA with effect from 4 April 2019 and launched on 15 May 2019. FundRock Partners Limited is the Authorised Corporate Director (the "ACD") of the Company and is authorised and regulated by the FCA. Registered Office: Hamilton Centre, Rodney Way, Chelmsford, Essex, CM1 3BY, UK; Registered in England and Wales with number 4162989. Carmignac Gestion Luxembourg SA has been appointed as the Investment Manager and distributor in respect of the Company. Carmignac UK Ltd (Registered in England and Wales with number 14162894) has been appointed as a sub-Investment Manager of the Company and is authorised and regulated by the Financial Conduct Authority with FRN:984288.

In Switzerland: the prospectus, KIDs and annual report are available at www.carmignac.ch, or through our representative in Switzerland, CACEIS (Switzerland), S.A., Route de Signy 35, CH-1260 Nyon. The paying agent is CACEIS Bank, Montrouge, Nyon Branch / Switzerland, Route de Signy 35, 1260 Nyon.

The Management Company can cease promotion in your country anytime. Investors have access to a summary of their rights in English on the following links: [UK](#) ; [Switzerland](#) ; [France](#) ; [Luxembourg](#) ; [Sweden](#).