QUARTERLY REPORT

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Carmignac Portfolio Patrimoine Europe: Letter from the Fund Managers

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Lengt
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+0.93%

Performance of the Fund in the quarter

vs +1.13% for the reference indicator* (A EUR Share class)

+1.84%

Performance of the Fund in 2023

vs +5.40% for the reference indicator* (A EUR Share class)

+23.0%

Performance of the Fund over 5 years

vs +17.1% for the reference indicator* (A EUR Share class)

Carmignac Portfolio Patrimoine Europe *A EUR Acc gained +0.93% in the second quarter of 2023, underperforming the +1.13% rise of its reference indicator*[1]*.*

European Markets Review

While the United States growth continues to surprise investors positively, Europe appears to be in a more delicate situation, as shown by the economic releases during the quarter. Despite a decrease in headline inflation which benefited from a slowdown in commodity prices, **core inflation in Europe remains at elevated levels** (5.4% in June[2]). This has **led the European Central Bank (ECB) to maintain a restrictive monetary policy**, raising its interest rates twice during the quarter, bringing the main refinancing rate to 4.0%. Meanwhile, growth data showed that the eurozone experienced a mild recession over the winter, with GDP declines of -0.1% in both Q4 2022 and Q1 2023[2]. Forward-looking data also points to **slowing momentum in the eurozone economy** and could influence future ECB decisions.

In this context, **European equities posted modest gains** in the second quarter of 2023, **driven by the financial and technology sectors**, while energy and communication services underperformed. The technology sector received a boost from semiconductor stocks, as higher-than-expected sales projections from some US chipmakers showcased the growth potential stemming from artificial intelligence. **On rates**, European bond yields were up in Q2 and, owing to the more marked downturn in the eurozone's macroeconomic outlook, outperformed their US counterparts considerably.

Quarterly performance review

In the second quarter, **the Fund's positioning reflected a less optimistic economic outlook, with limited exposure to equities** (20% on average) **and positive modified duration.** Although this scenario is slowly unfolding in Europe, market participants seemed to be more focused on the resilience of US growth. As a result, **our long position on core government rates weighed on performance** and was the fund's main detractor. Conversely, **our under-exposure in equities was offset by a favorable sector mix.** Indeed, our convictions in the healthcare sector with investments in Alcon and Zealand Pharma, as well as in technology with SAP, have paid off during the quarter. Likewise, **our credit book demonstrated positive performance** over the past three months, primarily driven by the performance of our CLOs exposure.

Outlook

On the macro-economic front, the **ECB's policy tightening over the past year is starting to affect lending conditions as well as the real economy.** GDP growth will probably remain sluggish and core inflation should start declining sharply in the autumn, paving the way for the ECB to close the door on its rate hikes by year-end. Given this economic environment, **our portfolio is positioned for an economic slowdown in Europe, with a cautious approach to risky assets and long duration positions.**

Within risky assets, we have the flexibility to **favor credit over equities**, which may not fully account for a potential economic slowdown. Currently, we find **attractive opportunities in credit investments, particularly those that factor in a higher likelihood of recession** (as indicated by the iTraxx Crossover index, implying an annual default rate of nearly 7% in Europe compared to the historical average of around 2%). These credit investments offer yields close to their 10-year highs, providing a buffer in case credit spreads widen. **On equities, we remain cautiously exposed** as the markets are currently trading at near-record levels. However, we continue to **favor high-quality, sustainable businesses in our stock selection, as they appear well-positioned in the current environment.** The superior profit growth, visibility of sales and the defensive characteristics (especially in healthcare) should help them weather an economic slowdown.

As for government bonds, central banks' reliance on economic data requires preparation for different scenarios. If there is a confirmed economic slowdown and rapid disinflation, we anticipate a broad decline in interest rates. Conversely, a resilient economy may lead to further policy rate hikes but could impact long-term bond yields and increase the likelihood of future economic contraction. To navigate this environment, we maintain a **positive exposure to government bonds to take advantage of the carry** and are **willing to tactically adjust the modified duration if needed.**

[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.

[2]Source: Bloomberg, 30/06/2023.

Source: Carmignac, Bloomberg, data as of 30/06/2023. 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.

Carmignac Portfolio Patrimoine Europe

An all-weather European Fund

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Carmignac Portfolio Patrimoine Europe A EUR Acc

ISIN: LU1744628287

Lower risk Higher risk

Potentially lower return Potentially higher return

Recommended minimum investment horizon

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.