ANSWERING THE BIG Q: HOW TO MANAGE UNCERTAINTY?

Didier Saint-Georges, Member of the Strategic Investment Committee

Hello, everyone, and welcome to our podcast, which will last around five minutes. The topic is how to manage uncertainty – a crucial issue for anyone whose job is to grow clients' savings, and certainly this year. I'll be attempting here to lay the groundwork for a response. Today, global economic activity is still suffering massive disruptions until vaccination can bring the pandemic under control. At the same time, inflation fears are rising, the level of indebtedness in the system is un precedented, and governments and central banks act as if the sky is the limit, while equity markets have powered to record highs. So, one has to wonder how long all this can last. In addition, you'd have to be a little blind not to notice today that equities are quite pricey. Now, one response to this complex environment would be to go on trusting our famed central bankers, as over the past decade, stay invested in equities and just hope for the best. The opposite would be to squirrel away all your savings in a bank account or the equivalent. Because you rightly suspect things could go south at some point. But then it means giving up on the idea of growing your wealth. An alternative approach would be to try to actually confront this complex reality. And that's something we've learned from experience. Which is that complexity can be managed. In fact, that's precisely what often enables you to stand out from the crowd when you're responsible for your clients' savings. In a way, maybe one of the biggest problems today for savers, is that a great many market participants don't have enough historical perspective. Actually most of them have almost never known anything other than a steady decline in interest rates and a comfortable equity bull market. Very few of them have learned the trade in the course of major periods of uncertainty. When you've been managing a fund like Carmignac Patrimoine for over thirty years, you remember that you had to deal with situations that were no less challenging than the one today. I am thinking of the 1987 stock-market meltdown, the 1994 bond-market crash, the bursting of the dot.com bubble twenty years ago, not to mention of course the crisis of 2008. And last year again, we had to look ahead, based on what we observed in China, and think fast about how governments and then markets might react. That required reducing risk whenever we needed to, reinvesting whenever possible and figuring out which sectors would fare the best.

If you look at today's situation, one of the key issues is that leverage is extremely high almost across the board. So the challenge for governments is not only putting the economy back on the path to lasting growth through investments in sustainability and technology, but also managing that without sending interest rates through the roof.
Because our highly leveraged economies simply couldn't handle that. In these uncertain times, three convictions underpin our approach: First, just cashing in on the economic upswing won't be enough. We also have to invest in companies that are poised to benefit from deeper long-term trends. When faced with uncertainty, our experience shows that it's essential to hold on to very strong convictions on individual equities.
That's the basis for long-range investing. We see a lot of such opportunities in China today, notably in healthcare. There are others in many sub-sectors of the US tech space, where major disruptions are still under way. But in Europe too, there are high-potential companies, particularly in consumer-goods sectors. Second, we're convinced that we need to shield our investments from a possible surge in US interest rates, which would inevitably spill over to Europe. That's not very hard in technical terms. We have all the right tools to do so, and we do use them. Third and last, we believe we must always keep an open mind. Because as in the past, there will be surprises, both good and bad.
Dealing with the unexpected is absolutely part of our job. You can't predict everything. But you can be prepared. That approach is what has guided the managers of Carmignac Patrimoine for thirty years, and what will guide them in the decades to come. Uncertainty is a basic material of truly active asset management. Thanks so much for your attention. Take care, and see you soon.

Carmignac Patrimoine

Recommended minimum investment horizon 3 years

Lower risk — Higher risk
Potentially lower return — Potentially higher return

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.

*Risk Scale from the KIID (Key Investor Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. Risk scale A EUR Acc share class ISIN code: FR0010135103.