CARMIGNAC PATRIMOINE: LETTER FROM THE FUND MANAGERS

08/10/2024 | CHRISTOPHE MOULIN, JACQUES HIRSCH, ELIEZER BEN ZIMRA, GUILLAUME RIGEADE, KRISTOFER BARRETT

-1.19%
Carmignac Patrimoine's performance in the 3rd quarter of 2024 for the A EUR Share class.

+2.52%
Reference indicator's performance in the 3rd quarter of 2024.

+5.79%
Year-to-date performance vs +7.94% for the reference indicator.

Over the third quarter 2024, ***Carmignac Patrimoine*** *A EUR Acc recorded a performance of -1.19%, underperforming its reference indicator (+2.52%). The performance since the beginning of the year stands at +5.79% vs 7.94% for its reference indicator[1].*

MARKET ENVIRONMENT DURING THE PERIOD

The quarter was marked by **significant activity from Central banks**, with diverging paths becoming more apparent.

In the **United States**, lower inflation and higher unemployment rate allowed the Federal Reserve (Fed) to cut rates aggressively in September by 50 basis points. In **Europe**, the ECB implemented its second rate cut, but central bankers face a dilemma: resilient euro-area inflation contrasts with a worsening economic outlook.

Conversely, the **Bank of Japan (BoJ)** raised its key rate by 15 basis points on July 31 and included forward guidance in its policy statement, signaling further hikes. Towards the end of the quarter, **Beijing's stimulus** measures fueled optimism for a recovery in the world's second-largest economy. The stimulus aimed to address monetary contraction, the housing market meltdown, and the slump in the equity market.

Despite a volatility shock in August driven by weaker US economic data, the BoJ's interest rate hike, and thin summer liquidity, **the third quarter of 2024 ended positively for equity markets**. Market leadership shifted this quarter, with part of the sectors previously hurt by high interest rates outperforming, while growth stocks lost some of their recent gains. Mirroring the trends in the equity markets, the credit markets have reaped the rewards of high carry and low spread.

Amid a backdrop of relatively optimistic risky assets, **the sovereign markets were significantly more pessimistic about the economic trajectory**, resulting in a sharp decline in rates over the quarter.

The beginning of the Fed's easing cycle also normalized the yield curve. After more than two years of inversion, yields on short-term bonds fell below those on long-term bonds in early September.

HOW DID WE FARE IN THIS CONTEXT?

Despite strong equity market performance, **our stock selection was adversely affected** by the unwinding of the artificial intelligence (AI) trade due to concerns about a potential slowdown in the AI revolution. Key detractors included Samsung Electronics, which struggled in critical markets and fell behind rival SK Hynix in AI-related memory chips. Alphabet also faced challenges due to increasing regulatory uncertainties. Many AI-related stocks are now trading at attractive valuations, and the long-term fundamentals remain strong. The segment continues to be driven by investments from cloud hyperscalers. We are investing not only in these hyperscalers but also in companies that enable this shift across the value chain.

Beyond the tech sector, **Novo Nordisk was the largest detractor to performance**. Negative news about potential competitors to its weight-loss and diabetes drugs, pricing concerns in the US, and disappointing data from its pipeline weight-loss pill weighed on the stock. We gradually reduced our position over the quarter due to a more troubled short-term outlook.

The asset class that suffered the most in the markets during the quarter was currencies. Although the fund benefited from a profitable overexposure to the yen, the dollar's weakness negatively impacted its performance over the quarter. Our cautious positioning on interest rates, characterized by a low modified duration, also negatively impacted relative performance as bond markets rallied over the quarter. However, **our strategic bond selection in the high yield and structured credit sectors contributed to the Fund's performance**.

Additionally, **our macro overlay performed well**, supported by effective hedging strategies and gold exposure.

OUTLOOK & POSITIONING

US growth is slowing down, but not falling off a cliff. Rapid disinflation is enabling the Fed to maintain the economy’s soft landing through consecutive rate cuts. Additionally, the resilience of consumer spending, bolstered by wealth effects and a robust corporate sector, provides further support for the economy. In Europe, we anticipate weak but steady growth through year-end. The austerity measures imposed by Brussels in response to budgetary excesses, particularly in Italy and France, should penalize growth.

In developed markets, inflation is slowing but we do not expect it to sustainably reach the 2% target. Dovish central banks and Chinese supporting commodities should support the reflation in the coming quarters.

In this scenario, **we remain constructive on equities** (34%). Indeed, in a scenario of gradual economic slowdown and global monetary easing, risky assets should continue to perform well as long as we don’t have a recession. However, similar to the third quarter, markets are likely to be more volatile, necessitating a degree of caution. **The primary risks to equities lie in over-optimistic expectations for corporate earnings and uncertainties surrounding the US elections**, which justify maintaining partial hedges.

The core equity portfolio remains composed of quality assets diversified across value chains, market cap sizes, style factors and regions.

Regarding interest rates, **we maintain a low overall modified duration as markets already reflect a negative outlook on growth**while being particularly cautious on the long end of the curve, as we continue to expect steeper yield curves. The market's underestimation of upside inflation risks, exacerbated by widening deficits in developed countries, further justifies an exposure to inflation strategies.

On the credit side, we expect to continue benefiting from carry, given the overall economic landscape, while employing tactical risk management to buffer against economic and political uncertainties.

To strengthen our overall portfolio construction, **we have implemented several decorrelation strategies**, including exposure to emerging local rates, gold miners, South American currencies, and the yen.

Source: Carmignac, 30/09/2024, portfolio composition may vary over time. Carmignac Patrimoine, A EUR Acc.

[1]Reference indicator: 40% MSCI ACWI (USD) (Reinvested net dividends) + 40% ICE BofA Global Government Index (USD) + 20% ESTER capitalised. Quarterly rebalanced. Until 31 December 2012, the reference indicators' equity indices were calculated ex-dividend. Since 1 January 2013, they have been calculated with net dividends reinvested. Until 31 December 2020, the bond index was the FTSE Citigroup WGBI All Maturities Eur. Until 31 December 2021, the Fund's reference indicator comprised 50% MSCI AC World NR (USD) (net dividends reinvested), and 50% ICE BofA Global Government Index (USD) (coupons reinvested). Performances are presented using the chaining method. From 01/ 01/ 2013 the equity index reference indicators are calculated net dividends reinvested. **Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations. Performances are net of fees (excluding possible entrance fees charged by the distributor).**

CARMIGNAC PATRIMOINE A EUR ACC

(ISIN: FR0010135103)

SFDR - Fund Classification** :

Article 8

LOWEST RISK — HIGHEST RISK

1	2	3*	4	5	6	7

Recommended minimum investment horizon: 3 YEARS

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 KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. **The Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 is a European regulation that requires asset managers to classify their funds as either 'Article 8' funds, which promote environmental and social characteristics, 'Article 9' funds, which make sustainable investments with measurable objectives, or 'Article 6' funds, which do not necessarily have a sustainability objective. For more information please refer to https://eur-lex.europa.eu/eli/reg/2019/2088/oj.

FEES

Entry costs : 4,00% of the amount you pay in when entering this investment. This is the most you will be charged. Carmignac Gestion doesn't charge any entry fee. The person selling you the product will inform you of the actual charge.

Exit costs : We do not charge an exit fee for this product.

Management fees and other administrative or operating costs : 1,51% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : 20,00% max. of the outperformance once performance since the start of the year exceeds that of the reference indicator and if no past underperformance still needs to be offset. The actual amount will vary depending on how well your investment performs. The aggregated cost estimation above includes the average over the last 5 years, or since the product creation if it is less than 5 years.

Transaction Cost : 0,63% of the value of your investment per year. This is an estimate of the costs incurred when we buy and sell the investments underlying the product. The actual amount varies depending on the quantity we buy and sell.

PERFORMANCE (ISIN: FR0010135103)

Calendar Year Performance (as %)	2014	2015	2016	2017	2018
Carmignac Patrimoine	+8.8 %	+0.7 %	+3.9 %	+0.1 %	-11.3 %
Indicateur de référence	+16.0 %	+8.4 %	+8.1 %	+1.5 %	-0.1 %

Calendar Year Performance (as %)	2019	2020	2021	2022	2023
Carmignac Patrimoine	+10.5 %	+12.4 %	-0.9 %	-9.4 %	+2.2 %
Indicateur de référence	+18.2 %	+5.2 %	+13.3 %	-10.3 %	+7.7 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Patrimoine	+1.8 %	+2.3 %	+1.4 %
Indicateur de référence	+2.1 %	+4.8 %	+6.0 %

Source: Carmignac at 31 Oct 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

CARMIGNAC
INVESTING IN YOUR INTEREST