



Carmignac Emergents: Letter from the Portfolio Manager



Author(s)
Xavier Hovasse

Published
February 2, 2021

Length
🕒 4 minute(s) read

During the last three months of the year, Carmignac Emergents (A EUR Acc) recorded a performance of +24.1%* versus 14.7% for its reference indicator. In 2020, the Fund returned +44.7%*, outperforming its reference indicator that was up only +8.5%.

The Emerging Market

In 2020, despite the pandemic that wrecked the world economy, emerging markets were supported by increased global liquidity, driven by dovish central-bank policies, with Fed and the ECB expanding their balance sheets very aggressively to finance large fiscal stimulus programs. Emerging markets were also up during the last quarter, driven by the Biden victory in the US elections and the approval of vaccines, fuelling hopes that pandemic fears will be behind us after the first half of 2021.

Portfolio Management

2020 will be remembered not only for the pandemic, but also as the year in which the digital revolution accelerated dramatically. Lockdown measures have benefited e-commerce players, with an unprecedented boost in adoption of all sorts of digital services. **Carmignac Emergents has been positioning itself on this theme for years, increasing its exposure to the digital world and to investment themes that will be the main beneficiaries of this revolution on all continents and in all sectors.**

- For example, in Latin America we have been investing in Mercado Libre, the leader in eCommerce and online payments since 2015. In Southeast Asia with Sea, a gaming platform that has grown into a giant in online commerce. In Russia with Yandex, the Russian search engine that takes market share from Google every year and has extended its ecosystem to cabs by merging with Uber in Russia. In Poland with Allegro, the "Polish Amazon". In Korea with Samsung Electronics.
- And what about China? We have been avoiding the companies of the old economy (banking, construction, mining), investing instead in the growing New Economy sectors, with investment themes geared towards the digital revolution the such as the Cloud (Kingsoft Cloud, Ming Yuan Cloud), e-commerce (JD.com, VIP Shop), or healthcare (Ping An Good Doctor, Zhifei, Wuxi Biologics).

These thematic positioning choices, favoring beneficiaries of digital revolution, along with good stock picking decisions explain the performance of the fund in 2020

Another key point worth highlighting: **Our "Socially Responsible" investment approach embedded in our investment process also greatly contributed to the fund's performance in 2020.**

How? By making us stay away of oil companies, almost all of which are owned by the governments or avoid airline & mining companies with past controversies, favoring instead companies that have positive impact on environment or societies, by trying to improve the living standards within emerging countries. We can give the example of our investments in the green mobility thematic, with our investments in electric vehicle production chain (leading battery manufacturer LG Chem in Korea, Nio "the Chinese Tesla" in China) contributing positively to performance in 2020.

Quick overview of our top contributors in 2020:



The portfolios of Carmignac funds may change without previous notice. The trademarks and logos are used with the authorisation of the respective entities and do not imply any affiliation with or endorsement by them. Source: Carmignac, Company data, 31/12/2020

*For the A EUR Acc share class. Reference indicator : MSCI EM NR USD converted into EUR.

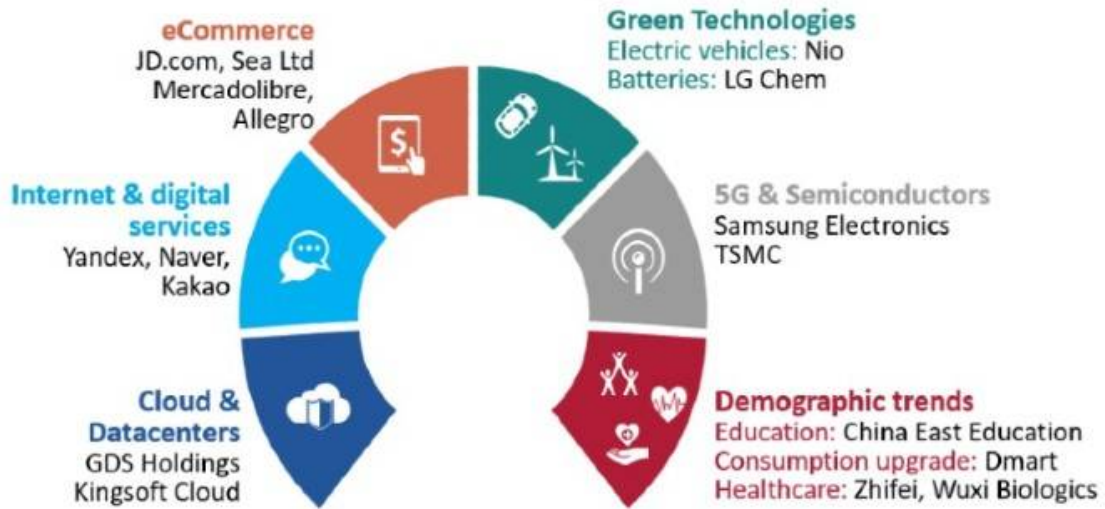
Investment Outlook

After this very special year 2020, we ask ourselves the following questions:

- With mass vaccination and the gradual return to normal, are we going to see a return to favor of neglected themes such as cyclical values or so-called "value" values? Will the EMEA and Latin America regions rebound?
- Will emerging equities finally outperform after a decade of marked underperformance?

The increases in the size of US and European central bank balance sheets implemented at the time of the lockouts and to finance fiscal stimuli are leading to an unprecedented increase in global liquidity. A bearish cycle on the dollar seems very likely and it is very positively correlated with positive performance for emerging markets. **North Asian economies have grown faster than developed countries while benefiting from much lower fiscal and monetary stimuli.** Their economic fundamentals are therefore stronger than those of the developed countries. This is why, most of our investments remain and will remain focused on this region, which has very high potential growth in our view.

Current positioning & investment thematics:



Portfolio composition may vary over time. 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. Source : Carmignac 31/12/2020

However, good long-term geographic & thematic allocation choices, are not, by themselves enough to deliver solid risk adjusted returns. It is crucial to take into account cyclical and sector rotations and manage the portfolio actively to adapt to a changing environment to seize the opportunities as they arise. That is why, we try to remain disciplined in position sizing & profit taking, constantly reviewing fundamentals, valuations, target prices of companies & countries we invest in. Therefore, during the fourth quarter of 2020, we made a few adjustments to our positioning to take into account cyclical rotation in markets:

- **We have increased our exposure to the EMEA and Latin America regions**, and to countries with less strong but improving macro fundamentals, as the depreciation of currencies has led to a drastic rebalancing of their balance of payments. It is the case of Brazil; whose current account is in surplus for the first time in 14 years. We accordingly stepped up our exposure to the country, along with Russia posting decent and improving fundamentals as well.
- Finally, **we also rebalanced the portfolio towards more cyclical assets** in order to take advantage/benefit as much as possible from the rebound we expect from emerging markets in 2021. We increased our exposure to “value” or quality cyclical companies with very attractive valuations such as Samsung Electronics or Hyundai Motor in Korea.

Discover the Fund’s webpage:

Carmignac Emergents

Carmignac Emergents A EUR Acc

ISIN: FR0010149302

	2016	2017	2018	2019	2020	2021 (YTD) ?
Carmignac Emergents A EUR Acc	+1.39 %	+18.84 %	-18.60 %	+24.73 %	+44.66 %	-4.11 %
Reference Indicator	+14.51 %	+20.59 %	-10.27 %	+20.61 %	+8.54 %	+4.26 %

	3 years	5 years	10 years
Carmignac Emergents A EUR Acc	+18.29 %	+10.04 %	+8.23 %
Reference Indicator	+8.64 %	+8.56 %	+7.33 %

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

Source : Carmignac at 30/09/2021

Source: Carmignac, EM Advisors Group, Bloomberg, 31/12/2020. Carmignac Emergents A EUR Acc (ISIN: FR0010149302). Reference indicator: MSCI EM NR USD. Daily returns in EUR as of 31/12/2020. Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations. The portfolios of Carmignac funds may change without previous notice.

Carmignac Emergents A EUR Acc

ISIN: FR0010149302

← Lower risk Higher risk
Potentially lower return Potentially
higher return
investment horizon →

- 1
- 2
- 3
- 4
- 5
- 6*
- 7

VOLATILITY: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.

EMERGING MARKETS: Operating conditions and supervision in "emerging" markets may deviate from the standards prevailing on the large international exchanges and have an impact on prices of listed instruments in which the Fund may invest.

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.

DISCRETIONARY MANAGEMENT: Anticipations of financial market changes made by the Management Company have a direct effect on the Fund's performance, which depends on the stocks selected.

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.

This document is intended for professional clients. This is an advertising document. This document may not be reproduced, in whole or in part, without prior authorisation from the management company. Investors have access to a summary of their rights in French, English, German, Dutch, Spanish, Italian on the following link:https://www.carmignac.com/en_US. This document does not constitute a subscription offer, nor does it constitute investment advice. Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The Funds are common funds in contractual form (FCP) conforming to the UCITS Directive under French law. The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged. The French investment funds (fonds commun de placement or FCP) are common funds in contractual form (FCP) conforming to the UCITS Directive under French law. 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. Access to the Fund may be subject to restrictions with regard to certain persons or countries. The Fund is not registered in North America, in South America, in Asia nor is it registered in Japan. The Funds are registered in Singapore as restricted foreign scheme (for professional clients only). The Fund has not been registered under the US Securities Act of 1933. The Fund 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/or FATCA. The Fund presents a risk of loss of capital. The risks and fees are described in the KIID (Key Investor Information Document). The Fund's prospectus, KIIDs and annual reports are available at www.carmignac.com, or upon request to the Management Company. The KIID must be made available to the subscriber prior to subscription. - In Switzerland, the Fund's respective prospectuses, KIIDs and annual reports 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, Paris, succursale de Nyon/Suisse, Route de Signy 35, 1260 Nyon. - 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 material was prepared by Carmignac Gestion and/or Carmignac Gestion Luxembourg and is being distributed in the UK by Carmignac Gestion Luxembourg UK Branch (Registered in England and Wales with number FC031103, CSSF agreement of 10/06/2013). - In Spain: Carmignac Patrimoine is registered with Comisión Nacional del Mercado de Valores de España (CNMV) under number 386, Carmignac Investissement under number 385, Carmignac Sécurité under number 395, Carmignac Emergents under number 387 and Carmignac Portfolio under number 392.