



Carmignac Portfolio Patrimoine Europe : Letter from the Fund Managers

Author(s)
Keith Ney, Mark Denham

Published
October 25, 2021

Len

Carmignac Portfolio Patrimoine Europe A EUR Acc lost -0.20% in the third quarter of 2021, below the +0.43% of its reference indicator¹, bringing the fund's performance to +6.74% year-to-date versus +6.47% for the reference indicator.

-0.20%

Carmignac Portfolio Patrimoine Europe's performance

in the 3rd quarter of 2021 for the A EUR Share class.

+0.43%

Reference indicator's performance

in the 3rd quarter of 2021.

+6.74%

Performance of the Fund Year to date

versus +6.47% for the reference indicator.

Quarterly Performance Review

Markets proved quite variable over the third quarter of 2021, with mixed performance overall. On European equities, the reporting season for second quarter results was broadly supportive with a high proportion of earnings beating estimates. During this phase the environment favoured an increasingly narrow group of stocks in the luxury goods or semiconductor sectors. However, this positive momentum, also driven by the recovery post-Covid crisis as well as fiscal and monetary support, stopped beginning of September. Rising inflationary pressures and the perspective of a slowing global pace of growth driven by China have weighted on investors' enthusiasm. Indeed, this combination making the near-term market outlook uncertain has taken a toll on risky assets as easy Central Bank policy may not be longer a given. Similarly to equities, European rates experienced a bumpy quarter. Although nominal rates hardly moved over the quarter (-0.20% for German 10-year rate), they hit their low point in early August before moving up in the last few weeks. After all, the stability of nominal rates over the quarter have brought real rates to historically low levels (German real 10-year rate close to -2%¹).

Over the quarter, the Fund used all the flexibility within its mandate to find performance drivers. We maintained a relatively prudent level of equity exposure (~30% in average) which cost us in relative terms. Our equity investment selection that focuses on businesses with high and stable profitability, reinvesting internally to generate secular growth performed well until end of August and, like the European equity markets, struggled in September. Regarding stock selection, the biggest positive contributors to our fund's performance came from the sectors where we have the largest exposures namely Technology, Healthcare and Industrials. ASML, the semiconductor equipment maker continued to perform well, rising 12% for the quarter and 63% for the year to date¹, benefiting from 3 powerful trends: its latest technology, EUV, is seeing accelerating demands from chip makers who use it to improve chip performance and power; semiconductors worldwide are seeing more demand than supply leading to ongoing commitments to build more capacity; and finally the prospect of near-shoring of semiconductor manufacturing leading to additional investment due to geopolitical tensions. The company is in a very strong position, but we felt that a lot of this was reflected in the stock at the start of September, and so we reduced our holding significantly. On the negative side we had no exposure to the strongly performing Bank sector which rose more than 5% in third quarter². This was the largest negative sector impact. We also had some stock specific setbacks. Luxury goods have been a strong sector for some time now. In particular LVMH has benefited from strong ongoing demand for its key brands Louis Vuitton and Dior among fashion and leather goods. The stock suffers from the Chinese premier announcing a desire for "common prosperity" and likely tax increases on the wealthy in China, who are significant buyers of luxury goods. This sent luxury stocks tumbling.

Regarding European rates, the market believes that the risk of European Central Bank stepping away is realistic. The messaging of the Central Bank in the coming weeks around the forward path after the end of Pandemic emergency purchase programme (PEPP) -meaning after March will be key. In that environment, we think that the whole fixed income market is at risk (core rates, periphery bonds and credit) requiring a very strict risk management policy. Indeed, the riskiest part of the European rate market (credit and non-core sovereign rates) still benefit from spreads that are closed to record-low, therefore they do not offer any cushion in case of sell-off in rates. Consequently, we have been very careful and flexible over the period to seize attractive entry point such as our tactical investment in non-core European debt at the beginning of the summer which offered attractive opportunities at that time.



Our Positioning and Outlook

Since Covid hit in early 2020, different areas of the European equity market have gone through volatile movements at different times, but at the end, the asset class has grown above 2019 levels and the volatility it has experienced created great opportunities. At the moment, within our equity portfolio, we maintain the bulk of our investments with a bias to quality secular growth companies that have the resilience needed to weather possible disappointments regarding GDP growth or inflation expectations. Selected industrials, health care, consumer discretionary, and technology are the areas where we see the majority of these opportunities. Europe has hidden gems in promising sectors such as digitalization or renewable energy, and as long-term investor, we use the current period of stock price weakness to add new names if we feel their stock prices have fallen too far. On top of that, we currently have a small net short in core duration, preparing the fund as ECB manages rates higher as the balance of risks on medium-term inflation is tilted to the upside. However, we maintain a cautious yet flexible approach to adjust to any shifts in monetary and fiscal policy by using our full range of modified duration (from -4 to 10). To conclude, our portfolio construction manages the risks of the fixed income markets through an extreme level of cash (50%) and short positions on core rates while taking advantage of businesses with high and stable profitability, reinvesting internally to generate secular, visible and stable growth.

At quarter-end, net equity exposure was around 42%, government bond exposure was around 11%, and cash around 49%. Euro currency risk was 89% (including pegged DKK), with the remaining 11% spread across GBP, SEK, and CHF denominated equity investments. Overall, the fund's net modified duration was around -111bp³.

Strategy Reminder

A socially responsible mixed fund focused on European equities and fixed income. The investment process balances long-term, bottom-up stock and bond picking, with a dynamic macro overlay. Stock selection is focused on companies with the best long-term growth prospects, as demonstrated by their high, sustainable profitability, and internal reinvestment potential. Bond selection is focused on mispriced or improving corporate leverage and cash flow, and sovereign credit, inflation or policy outlooks. The strategy seeks to positively contribute to society and also looks to minimize its environmental impact by having a reduced carbon footprint. At least 50% of the assets are permanently invested in fixed income securities. The Fund aims to outperform its reference indicator over 3 years, while mitigating downside risks.

Source: Carmignac, as of 30/09/2021

Carmignac Portfolio Patrimoine Europe

A suitable solution for long-term savings

[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 Company. 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 Company.

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](#).