



Carmignac Investissement: Letter from the Fund Manager



Author(s)
David Older

Published
July 12, 2022

Length
5

-10.46%

Carmignac Investissement's performance

in the 2nd quarter of 2022 for the A EUR Share class

-10.24%

Reference indicator's performance

in 2nd quarter of 2022 for MSCI World ACWI

-19.05%

Performance of the Fund Year to date

versus -13.18% for the reference indicator

In the second quarter of 2022, Carmignac Investissement recorded a performance of -10.46% in line with its reference indicator¹ (-10.24%).

Market environment

Inflation showed no sign of abating over the quarter, driven by higher gas prices, ongoing supply disruptions, as well as both a tight job and a hot rental market in the US. As a result, Central banks in developed markets pursued increasingly hawkish monetary policies or rhetoric, with the Federal reserve increasing its key interest rate by 75 bp – a first in 27 years - with Fed Funds ranging from 1.5 to 1.75%, and the ECB preparing markets for a lift off this July, a first in more than 10 years. The outlook for tightening liquidity has led increased recession risks and triggered bouts of volatility in the rates market. In turn, higher rates weighed on valuations, resulting in a broad-based sell-off in equity markets. Richly valued segments were the most impacted, as illustrated by the tech-heavy Nasdaq's 22% retreat over the period, the biggest quarterly loss since 2008. However, defensive sectors like healthcare and consumer staples proved more resilient as growth concerns rose. In China, while the resurgence of Covid cases at the beginning of the period and related mobility restrictions did weigh on the performance of the region, prospects of a shift towards more support on the regulatory, monetary and/or fiscal front fueled a rebound as the quarter progressed.

How did we fare in this context?

Carmignac Investissement recorded a negative performance over the period, in line with its reference indicator. Main absolute contributors to returns can be summarized as followed:

Positive contribution of our decision to be more exposed to the healthcare sector and stock selection within the later (Humana, Eli Lilly, Elevance Health) as well as from our relative preference for Chinese equities markets and stock selection in the country (JD.com, Haier, Wuxi Biologics).

Negative contribution linked to the broad-based market drawdown, notably on the tech and visible growth side including some stock-specific issues (Uber).

Despite the general drawdown that we suffered from, we continued to actively manage the portfolio throughout the quarter, to both strengthen its resilience as well as optimize our performance drivers for the next leg up in equity markets. We rebalanced the portfolio towards more defensive “essential” sectors, stepping up our exposure to the consumer staples and healthcare sectors (+3.5% and +1.8% over the quarter, in % of assets). This move proved rewarding, both from an asset allocation and stock selection standpoint, as illustrated by the positive contribution of our healthcare names (Elevance Health, Humana, Eli Lilly) and our consumer staples (Constellation, Diageo, Nestle) in one of the most severe selloffs on record. Similarly, we lowered our exposure to expensive high beta sectors notably found in the technology space, by exiting Netflix and Block, in order to reduce further the global book’s average valuation given the volatile interest rate environment. Uber particularly weighed on performance this quarter, on the back of rising oil prices and wage pressures. We have reduced our investment in the name, until those headwinds stabilize, and the earnings path improves. We nevertheless took advantage of the large derating to re-enter some of our historical long-term convictions, including in the cloud software sector (ServiceNow, Oracle), but also in China. We almost doubled our exposure to the region over the quarter as the regulatory backdrop improved while the government has been more vocal about its intention to support growth going forward. This rebalancing supported performance. Finally, we took advantage of the setback in the energy sector to increase our exposure from to 4 to 5% (in % of assets), by increasing our sizing in Totalenergies and Schlumberger.



What is our outlook for the coming months?

Central banks of developed countries are not showing any sign yet that they are moving away from aggressive tightening. This dynamic, along with increasing signs that the global economy is slowing rapidly should shift investors' focus from inflation risk to recession risk. As a result, while equity valuations suffered from rising rates in the first half of the year, corporate earnings should be the driving force of equity markets returns going forward. However, while earnings showed resilience over the Q1 earning season and since then prospects of future earnings have started to be increasingly questioned. Going forward earnings are expected to come under increasing downward pressure as the impact of higher costs and questions over companies' capacity to pass it onto consumers are yet to be reflected in their margins in a context of lower demand as the economy slows. Consequently, we focus our investments on company stocks with both contracted valuations and resilient earnings trajectories. This view underpins why we have reduced exposure to semi-conductor names with cycle-sensitive earnings in favor of cloud software names, which on top of having attractive and recurring revenue streams, now benefit from much lower valuations (Oracle, ServiceNow, Microsoft). Similarly, our increased Chinese exposure benefits from resilient earnings coupled with low valuations – Chinese equities derating cycle being more a year long.

Overall, we think a focus on quality growth companies, characterized by high and stable margins and/or solid growth prospects, should support performance going forward – even more so as upward pressure on longer term interest rates have gone a long way already. Among quality growers, we continue to favor more defensive “essential” sectors, notably within consumer staples and healthcare, that have started regaining momentum as markets shift their focus on slowing growth. We balance out this core positioning with an exposure to the energy sector. Despite being cyclical, our view is that demand recovery and tightness in supply should lead to a multiyear cycle of capital spending by oil companies. Besides, oil and gas continue to satisfy a substantial portion of energy demand, while renewables continue to grow, displacing coal. Certain traditional energy companies operating in this transition are thus particularly well positioned in the current environment.

These medium-term adjustments to our portfolio should not overshadow the numerous long-term opportunities that are rebuilding and that we intend to capitalize on. With contracted valuations and steady earnings growth, these convictions are better positioned to materialize, especially since markets are bound to be more fundamentally driven going forward. Within our broad international investment universe, we have identified four major sustainable thematic areas, built on secular growth trends as well as positive quantifiable impacts on societies and the environment.

These core thematic areas revolve around 1) **Consumer trends** (31%), that pertain to shifting habits in consumption, including online trends as well as the polarization of spending (JD.com, Hermes). 2) **Technological enablers** (14%), that relates to the ecosystem around digitization, including cloud & software (Microsoft, Palo Alto), **Demographic & societal developments** (27%), that encompasses companies supporting societies via products and services linked to healthcare, education as well as financial services (Elevance Health, Novo Nordisk), **Climate change** (10%), that includes companies supporting the energy transition or offering products suited to this transition (Orsted, TotalEnergies).

¹ Reference indicator: MSCI ACWI (USD) (net dividends reinvested). As of 01/01/2013, the reference indicators for the shares are calculated net dividends reinvested. Source: Carmignac, 30/06/2022

Carmignac Investissement

The Power of Sustainable Thematic Investing

[Discover the fund page](#)

Carmignac Investissement A EUR Acc

ISIN: FR0010148981

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.

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.

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 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.

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](#).