CARMIGNAC ABSOLUTE RETURN EUROPE: LETTER FROM THE FUND MANAGERS

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Over the second quarter of 2024, ***Carmignac Absolute Return Europe*** *(A EUR share class) realized a positive performance of +0.27%.*

MARKET ENVIRONMENT

After a strong start to the year, the second quarter saw European markets enter a period of consolidation, with the Stoxx Europe 600 essentially trading flat for the whole period. **A combination of macro factors and geopolitical issues set the scene for a volatile quarter.**The quarter started with a selloff in April driven by a combination off the shock of a full-scale attack by Iran on Israel soil and various mixed macro data, including evidence of stickier than expected inflation which propelled bond yields higher and pushed out the expected timing of US rate cuts.

During this period of increased risk premium and volatility, investor confidence was greatly affected, leading to a significant wave of derisking. This, in turn, created **a highly rotational market, de grossing of risk resulting in the most shorted areas of the market outperforming.**This shift in sentiment proved to be unhelpful for the Q1 earnings season, which saw more often than not, share prices of companies that beat expectations fail to make any progress and even the smallest of earnings disappointments being met with brutal sell offs. Towards the end of May the markets began to recover again as investors bought the dip caused by weaker economic data, rolling over of bond yields, which subsequently supported equity markets. Yet again, growing hopes of falling inflation and lower rates catalysed outperformance by growth stocks.

In June, despite limited corporate news, the market experienced significant volatility due to various factors. Geopolitical events, such as elections in India and the anticipation of the UK and US elections, played a role. However, **the most impactful event was the surprise election announcement by Macron in France. This announcement led to a substantial increase in French bond yields (OAT v Bund spreads) and a significant decline in French equities.**The CAC 40 index fell more than -6% in just a few days, dragging down most other European markets. These political fears, which drove higher risk premia combined with continuing weak macro data saw another sell off in European equities, leaving the Stoxx 600, down -1.6% for the month of June and largely flat for the overall quarter, returning only a meagre +0.20%.

Within Europe, the best performing sectors were Basic Resources, Healthcare, Technology, Banks and Communications while the main laggards were Autos, Travel and Leisure, Consumer Products and Chemicals.

PERFORMANCE REVIEW

Despite an environment of volatile and challenging market conditions the fund was able to produce a small positive return during the quarter. This was a quarter requiring diligent risk management to navigate market volatility, which saw our gross exposure being flexed between 125% and 145%, and our net exposure percentage between the high teens to the low 30's. **Disciplined stock selection ensured that both the long and short side of our portfolio produced positive returns. The biggest positive contributions came from longs in Technology, Communications and Healthcare, and short positions in Consumer discretionary, Consumer staples and Materials.** The main detractors came from longs in industrials, consumer discretionary and financials. The latter is particularly being impacted by the unexpected political events.

During the quarter, **portfolio activity centred around adding to defensive growth in sectors such as healthcare and communications and reducing cyclicality through reduction in various longs.** In addition, we added to selective shorts in industrials and consumer discretionary names, to take advantage of expected weakness in earnings in the upcoming results season. Elsewhere, we took some profits in the retail banks which have performed well on the back of strong growth in net interest income and rising expectations of cash returns.

Overall, the core of the portfolio didn't change a lot. **We continue to run the dominant themes of artificial intelligence (AI) beneficiaries and GLP-1 anti-obesity drugs.** Specifically in the Technology book, we added to companies poised to benefit from the capital expenditure required to build the semiconductor manufacturing capacity which is crucial for driving the AI revolution. Additionally, we added positions in companies that are at the forefront of developing the next generation of high bandwidth DRAM, essential for supporting advanced AI models. Towards the end of the quarter, after a very strong run, **we took profits in the poster child of AI, Nvidia, where in the absence of material incremental upgrades, its valuation is beginning to look 'challenged'.** In addition, we believe the shares may also have experienced excessive momentum following its recent stock split, which is likely to have driven incremental retail buying activity. Therefore, we believe that the shares may be in need of a temporary pause or consolidation. However, if there is a pullback in the share price, we are likely to re-engage. Elsewhere, we have widened our research to include other enablers of the AI transformation including clean energy suppliers who can provide the energy to the power-hungry data centres that form the backbone of AI infrastructure. This also includes a property company that is expanding its portfolio into datacentres in Europe. In the Healthcare sector, we have added to our investment in Novo Nordisk the market leader in anti-obesity medication and introduced a new name, Zealand Pharma, a mid-cap stock with a very promising next generation GLP-1 drug which we believe will generate very significant upside.

Winners:

- Novo Nordisk (Long) - positive earnings report and new trials highlight wider medical benefits from their GLP-1 portfolio.
- SK Hynix (Long) - significant earnings beat from accelerating demand for High Bandwidth Memory essential for AI.
- TSMC (Long) - earnings beat and raised forward guidance.
- First Solar (Long) - strong demand for solar energy driven by demand from AI infrastructure.
- Nvidia (Long) - stock powered higher by impressive Q1 earnings report.

Losers:

- Adyen (Long) - negative reaction to small earnings miss.
- Airbus (Long) - lowered guidance for aircraft deliveries due supply chain bottlenecks.
- Medical device (Short) - aggressive short covering rally post signing a settlement agreement.
- Fluence Energy (Long) - profit taking post a strong run, causing a sell off on the back of Trump presidency fears.
- Ryanair (Long) - CEO reduced guidance for pricing for the summer season.

OUTLOOK

Although during parts of the first half of the year, European equity markets benefited from the US momentum 'wave', they predominantly lagged the US during most of Q2. This was primarily due to the contrasting sector composition in Europe, which has a lower weighting in technology and growth sectors compared to the US. Additionally, European banks had a strong performance in Q1, positioning them as potential leaders in the first half of the year alongside the technology sector, however, their performance stagnated in Q2. This was mainly due to the Iran-Israel conflict flaring up in April, and again the surprise French elections being announced in June. These political events caused overall an equity risk premia spike, and European banks along other EU cyclicals suffered a setback.

As a result, the starting point as we now enter the second half of the year is slightly different between the two regions. Furthermore, Europe's strong reliance on global trade, particularly with China, has resulted in prolonged periods of weak growth. This can be attributed to sluggish demand in key sectors such as luxury goods and automobiles, as well as ongoing inventory adjustments in the chemicals industry. As a result, the disparity between Europe and other regions, including the US, has widened even further.

Therefore, as we now look ahead into the second half of the year, not only is the US economy coming off a higher base, but it's also the US that will have to contend with its own upcoming Presidential election, all the news flow and swings in expectations around the timing of Federal Reserve rate cuts. These uncertainties could also elevate risk and shift the perception between the two regions.

With Europe and the UK (expected soon) now embarking on rate cuts, a possible shift of focus to more cyclical depressed areas of the market could unfold. If so, European equities could again become a candidate for investors to find value. Furthermore, if the rate cuts in Europe are successful in stimulating growth, coupled with the ongoing benefits of real wage growth for consumers, there is a possibility of early signs of growth emerging in the EU. This at a time when the US consumer seems to be faltering. It is still too early to make a definitive assessment, but we are hopeful that the upcoming Q2 result season will provide us with some insights into how these trends are developing.

Meanwhile, in the US, the focus remains firmly on Technology and Quality growth. If expectations for rate cuts continue and large cap Tech companies can sustain their earnings performance, it appears that this trend will remain intact, at least for the time being. However, the risks might be building. Not only are valuations becoming more elevated, but there is also the possibility that "bad" economic data could have a negative impact on the markets. So far, bad macro is supporting rate cut expectations, but that might change. In addition, as the market leadership is becoming even more narrow, the overall risks are growing. But above all, the bigger 'test' for the market short term, will no doubt be the next set of upcoming quarterly results. After experiencing two consecutive quarters of exceeding expectations and achieving growth, the question now arises: can they continue to generate enough positive surprises and upgrades to sustain their momentum? No doubt, the bar has been risen.

These are all risks and opportunities, and **we stay agile and well prepared to swiftly shift our risk, if and where required.** We will also continue to employ diligent risk management outside our single stock longs and shorts, using various option strategies, taking advantage of cheap/low volatility.

Finally, **post the UK election last week, our objective is to do more work on domestic UK exposed names.** We believe, a new stable Labour government is good news for the UK, as long the fiscal situation doesn't worsen. Additionally, **the UK equity market, which has been overlooked by investors for years, is currently undervalued both in relative and absolute terms. This presents potential investment opportunities for us.**

CARMIGNAC ABSOLUTE RETURN EUROPE A EUR ACC

(ISIN: FR0010149179)

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

RISK ASSOCIATED WITH THE LONG/SHORT STRATEGY: This risk is linked to long and/or short positions designed to adjust net market exposure. The Fund may suffer high losses if its long and short positions undergo simultaneous unfavourable development in opposite directions. **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. **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 : 2,20% 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 if the performance is positive and the net asset value exceeds the high-water mark. 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 : 0,74% 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: FR0010149179)

Calendar Year Performance (as %)	2016	2017	2018	2019	2020
Carmignac Absolute Return Europe	+8.9 %	+14.6 %	+4.4 %	-1.3 %	+5.2 %

Calendar Year Performance (as %)	2021	2022	2023	2024	2025 (YTD)
Carmignac Absolute Return Europe	+12.6 %	-6.4 %	+0.0 %	+3.6 %	+0.3 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Absolute Return Europe	+0.3 %	+3.0 %	+2.8 %

Source: Carmignac at 28 Feb 2025.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

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.

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