

CARMIGNAC PORTFOLIO EMERGENTS: LETTER FROM THE FUND MANAGERS

01/02/2024 | XAVIER HOVASSE, HAIYAN LI-LABBÉ

Carmignac Portfolio Emergents¹ returned +9.8% over 2023, compared with +6.1% increase for its reference indicator². This performance was achieved against a backdrop of further underperformance by emerging markets, penalized mainly by economic and geopolitical tensions in China. In this report we take a look back at 2023 by analyzing the fund by major geographic zones, with the "country" factor taking precedence over "sector" or "style" factors in 2023.

NEW CHINESE DISAPPOINTMENT

The main event at the start of 2023 was China's reopening after the government's U-turn on health policy announced at the end of 2022. This unexpected turnaround gave rise to strong optimism about the prospects for economic growth and the government's capacity for pragmatism. But the upward momentum of the early part of the year soon faded, to the detriment of fears of an escalation in geopolitical tensions following the episode of the spy balloon in American skies. Then, China's economic growth figures began to disappoint rapidly, with contagion from the real estate sector's problems to the rest of the economy. With this in mind, valuation multiples contracted once again, resulting in another year of pronounced underperformance.

However, we would like to bring a crucial element regarding Carmignac Portfolio Emergents' investment philosophy. Although the fund has been overweight China since 2020, the contribution of our Chinese portfolio was positive over the period, thanks to our expertise in China, which enables us to create value through our stock picking decisions. This was again the case in 2023, thanks mainly to two stocks, the distribution company **Miniso**, and the education company **New Oriental Education**. Both stocks had fallen sharply during the various Chinese crises, but our detailed analysis of these companies enabled us to strengthen our positions at attractive levels. Our investment process, focused on cash flow generation and good corporate governance, has enabled us to structurally outperform the Chinese market over ten years. In fact, over 10 years, our Chinese portfolio has posted a cumulative performance of +209.8%, compared with +35.8% for the Chinese stocks in the reference indicator³.

At the end of the year (31/12/2023), our Chinese portfolio represented 31.5% of the fund's net assets, compared with 26.5% for our reference indicator.

REST OF ASIA

Fortunately, the prevailing pessimism in China did not spread to its Asian neighbors. Korea (17.5% of the fund) and Taiwan (9.8% of the fund) in particular benefited from investors' attraction to Artificial Intelligence. Our two biggest holdings, **Taiwan Semiconductor** and **Samsung Electronics**, made a positive contribution to the fund's performance in 2023, as they are at the heart of the production facilities for the semiconductors and new graphics cards that Nvidia will need to produce for the development of various AI applications. These companies have underperformed the "Magnificent 7" due to the Taiwanese elections and Samsung's declining profitability, but we believe that the near-monopoly positioning of these two companies in foundry and DRAM memories should enable them to catch up with the stock market performance of their US counterparts in 2024.

India is a country that benefits from excellent international positioning, with favorable demographics, a high-quality workforce and relatively low political risk in this election year. We increased our exposure to India (11.7% of the fund) after adding a new position, Embassy Office Parks. This real estate company owns commercial and office real estate, mainly in the city of Bangalore, where its clients include most of the flagships of the Indian IT industry and major US tech companies. Bangalore is called "India's Silicon Valley", having focused its development on the high-tech sector for over twenty years, and enjoys economic growth even higher than the national average. **Embassy Office Parks** has a dividend yield of 7%², with projected revenue growth of 15%⁴ over the next three years, and corporate governance that meets the strict requirements of our investment process.

LATIN AMERICA

2023 was an excellent year for Latin America, which has long been neglected by investors and which we have largely overweighted. The performance of these countries used to depend on the strength of Chinese growth and commodity prices. In 2023, Latin America was the world's strongest stock market region, despite a disappointing Chinese economy and falling oil and agricultural commodity prices. This was due to structural factors, both economic and geopolitical. Mexico (10.0% of the fund) was the big winner in the geopolitical tensions between the USA and China. The proportion of investments in the economy has risen from 16% to 24%, ensuring strong growth that is benefiting the equities market. Lopez Obrador's Morena party has also shown a surprising economic pragmatism. In Brazil (11.5% of the fund), the economy is benefiting from the reforms of Paulo Guedes, Bolsonaro's Finance Minister, who has reformed the labor market and privatized some of Brazil's economic behemoths. Agricultural and oil production have also risen sharply as a result of high levels of investment over the past fifteen years. Brazil currently produces three million barrels of oil equivalent per day, but production should exceed five million by 2029, providing significant support for the Brazilian balance of payments, and therefore for its currency, the real. For these reasons, we are invested for the long term in this region, with investments in under-penetrated sectors with growth prospects.

OUTLOOK FOR 2024

With FED reversing its monetary policy at the end of 2023, leading to a sharp drop in US real interest rates, and the fall in oil prices, we expect Asian markets to rebound, especially in view of a cyclical rebound whose first signals we are seeing at the start of this year. China remains the main question mark for the new year. After several years of underperformance, Chinese equities seem undervalued to us, leading to an asymmetrical risk/ reward profile in favor of our positions. Should Sino-American relations deteriorate, we would not hesitate to deploy more capital in Southeast Asia and Latin America.

¹Carmignac P. Emergents F EUR Acc (ISIN: LU0992626480). 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).

²Reference indicator: MSCI EM NR (USD) index, dividends net reinvested, rebalanced quarterly. Performance in euros to 29/12/2023.

³Source: Carmignac, performance calculated in EUR from 31/12/2013 to 29/12/2023.

⁴Source : Bloomberg, company data, BCA Research, 31/12/2023.

SFDR - Fund Classification** :

Article **9**



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. **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 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 : We do not charge an entry fee.

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

Management fees and other administrative or operating costs : 1,32% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : 20,00% when the share class overperforms the Reference indicator during the performance period. It will be payable also in case the share class has overperformed the reference indicator but had a negative performance. Underperformance is clawed back for 5 years. 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 : 0,37% 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.

ANNUALISED PERFORMANCE (ISIN: LU0992626480)

Calendar Year Performance (as %)	2014	2015	2016	2017	2018
Carmignac Portfolio Emergents	+6.4 %	+3.9 %	+1.7 %	+19.8 %	-18.2 %
Indicateur de référence	+11.4 %	-5.2 %	+14.5 %	+20.6 %	-10.3 %

Calendar Year Performance (as %)	2019	2020	2021	2022	2023
Carmignac Portfolio Emergents	+25.5 %	+44.9 %	-10.3 %	-14.3 %	+9.8 %
Indicateur de référence	+20.6 %	+8.5 %	+4.9 %	-14.9 %	+6.1 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Portfolio Emergents	+4.7 %	+7.3 %	+6.2 %
Indicateur de référence	+1.9 %	+2.8 %	+5.7 %

Source: Carmignac at 30 Apr 2024.

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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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.

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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.

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